Volume 4
Financial Operations and Program Integrity
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Financial Responsibility

CHAPTER 1

This chapter discusses the financial standards and limitations that apply to a school's FSA eligibility as well as the annual calculation of a school's cohort default rate.

DEMONSTRATING FINANCIAL RESPONSIBILITY

To participate in the FSA programs, a school must demonstrate that it is financially responsible. To provide the Department with the information necessary to evaluate a school's financial responsibility, schools are required to submit financial information to the Department every year. A school must provide this financial information in the form of an audited financial statement as part of a combined submission that also includes the school's compliance audit. For-profit schools have six months from the end of the schools' fiscal year to provide the combined submission; other schools have nine months.

What follows is an overview of the financial responsibility standards. Schools should refer to Subpart L of the Student Assistance General Provisions for complete information.

The Department determines whether a school is financially responsible based on the school's ability to:

- provide the services described in its official publications and statements;
- properly administer the FSA programs in which the school participates; and
- meet all of its financial obligations.

The financial responsibility standards can be divided into two categories: (1) general standards, which are the basic standards used to evaluate a school's financial health, and (2) performance and affiliation standards, which are standards used to evaluate a school's past performance and to evaluate individuals affiliated with the school.

CHAPTER 1 HIGHLIGHTS

- Demonstrating financial responsibility
- Standards for financial responsibility
- Alternatives to the general financial standards
- Past performance & affiliation standards
- Limitations
- Cohort default rate

Financial responsibility

Sec. 498(c) of the Higher Education Act
34 CFR 668 Subpart L

Financial responsibility
Treatment of long-term debt
DCL GEN 03-08, July 2003
34 CFR 668, Subpart L, Appendices A & B
Ratios
34 CFR 668.172
Refund reserve standards
34 CFR 668.173
Returning funds in a timely manner
34 CFR 668.22

Change in ownership
When a change in ownership occurs, the Department applies the standards in 34 CFR 668.15.

Notifying the Department of change of control
A school must report any changes of control under which a person acquires the ability to affect substantially the actions of the school. Such changes in control trigger a review to determine if the school is financially responsible (see the *FSA Handbook – Volume 2, Chapter 5*).

Financial responsibility for public schools

A public school is financially responsible if its debts and liabilities are backed by the full faith and credit of the state or another government entity. The Department considers a public school to have that backing if the school notifies the Department that it is designated as a public school by the state, local, or municipal government entity, tribal authority, or other government entity that has the legal authority to make that designation. The school must also provide the Department with a letter from an official of the appropriate government entity confirming the school's status as a public school. A letter from a government entity may include a confirmation of public school status for more than one school under that government's purview. The letter is a onetime submission and should be submitted as a separate document.

Public schools also must meet the past performance and affiliation standards discussed later and must submit financial statements prepared in accordance with generally accepted accounting principles (GAAP) and prepared on the accrual basis.

Financial responsibility for proprietary or private nonprofit schools

A proprietary or private nonprofit school is financially responsible if the Department determines that—

- the school has a composite score of at least 1.5;
- the school has sufficient cash reserves to make the required refunds, including the return of Title IV funds (these requirements are known as the refund reserve standards);
- the school is meeting all of its financial obligations, including making required refunds, including the return of Title IV funds and making repayments to cover FSA program debts and liabilities; and
- the school is current in its debt payments.

These requirements are discussed in more detail in the next section.

Even if a school meets all of the general requirements, the Department does not consider the school to be financially responsible if—

- in the school's audited financial statement, the opinion expressed by the auditor was adverse, qualified, or disclaimed, or the auditor expressed doubt about the continued existence of the school as a going concern (unless the Department determines that a qualified or disclaimed opinion does not have a significant bearing on the school's financial condition), or
- the school violated one of the past performance requirements discussed later in this chapter.

STANDARDS FOR FINANCIAL RESPONSIBILITY

Composite score

The composite score combines measures of fundamental elements of financial health to yield a single measure of a school's overall financial health. This method allows financial strength in one area to make up for financial weakness in another area, and it provides an equitable measure of the financial health of schools of different sizes.

The composite score methodology takes into account the differences between proprietary schools and private nonprofit schools. The variance takes into account the accounting differences between these sectors of postsecondary schools. However, the basic steps used to arrive at the composite score are the same.

Refund reserve standards

One of the standards that a school must satisfy to be considered financially responsible is that it must have sufficient cash reserves to return FSA funds when a student withdraws. A school is considered to have sufficient cash reserves if it:

- is located in a state that has an ED-approved tuition recovery fund and the school contributes to that fund, or
- for its two most recently completed fiscal years, the school made all required returns in a timely manner (see the *FSA Handbook, Volume 5, Chapter 2* for more information on returns, including timely payment).

Returning funds in a timely manner

Unearned funds must be returned no later than 45 days after the date of the school's determination that the student withdrew. ED considers the school to have returned funds, depending upon the method it uses to return them. Specifically, the regulations provide that a school has returned funds when it has:

- deposited or transferred the funds into the bank account it maintains for federal funds no later than 45 days after the date it determines that the student withdrew,
- initiated an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew, or
- issued a check no later than 45 days (as supported by the school's records) after the date it determines that the student withdrew.

If a check is used to return unearned funds, the Department requires that the check be endorsed by ED no later than 60 days after the school's determination that a student withdrew to be considered a timely return.

Additional information on composite scores

For complete information on the calculation of the composite score, schools should refer to Appendices A and B of Subpart L in the General Provisions regulations.

The Department issued guidance on the treatment of long-term and other debt in calculating these ratios in DCL GEN-01-02, which was subsequently replaced by DCL GEN-03-08.

Tuition recovery funds

When a state submits a tuition recovery fund for approval by the Department, the Department will consider the extent to which the recovery fund:
• provides returns to both in-state and out-of-state students;
• complies with FSA requirements for the order of return of funds to sources of assistance; and
• is replenished if any claims arise that deplete the fund.

Calculating a composite score

The first step in calculating a school's composite score is to determine the school's primary reserve, equity, and net income ratios by using information from the school's audited financial statement. These ratios take into account the total financial resources of the school. The Primary Reserve Ratio represents a measure of a school's viability and liquidity. The Equity Ratio represents a measure of a school's capital resources and its ability to borrow. The Net Income Ratio represents a measure of a school's profitability.

Upon review, some items from a school's audited financial statement may be excluded from the calculation of the ratios. For example, the Department may exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs, from the ratio calculations. (See the regulatory exclusions below.)

All long-term debt obtained for the school's purposes may be included for purposes of the Primary Reserve Ratio calculation. However, it is important to note that the overall level of debt obtained for long-term purposes that can be included in the numerator of the Primary Reserve Ratio is limited under the regulations. It cannot exceed the value of the school's net property, plant, and equipment.

A strength factor score is then calculated for each ratio using equations established by the Department. A strength factor score reflects a school's relative strength or weakness in a fundamental element of financial health, as measured by the ratios. Specifically, the strength factor scores reflect the extent to which a school has the financial resources to: 1) replace existing technology with newer technology; 2) replace physical capital that wears out over time; 3) recruit, retain, and retrain faculty and staff (human capital); and 4) develop new programs.

A weighting percentage is applied to each strength factor score to obtain a weighted score for each ratio. The weighting percentages reflect the relative importance that each fundamental element has for a school in a particular sector (proprietary or private nonprofit).

The sum of the weighted scores equals the school's composite score. Because the weighted scores reflect the strengths and weaknesses represented by the ratios and take into account the importance of those strengths and weaknesses, a strength in the weighted score of one ratio may compensate for a weakness in the weighted score of another ratio.

Once a composite score is calculated, it is measured along a common scale from negative 1.0 to positive 3.0. This scale reflects the probability a school will be able to continue operations and meet its obligations to students and the Department.

Exclusions

Excluded items. In calculating an institution's ratios, the Secretary—

(1) Generally excludes extraordinary gains or losses, income or losses from discontinued operations, prior period adjustments, the cumulative effect of changes in accounting principles, and the effect of changes in accounting estimates;

(2) May include or exclude the effects of questionable accounting treatments, such as excessive capitalization of marketing costs;

(3) Excludes all unsecured or uncollateralized related-party receivables;

(4) Excludes all intangible assets defined as intangible in accordance with generally accepted accounting principles; and

(5) Excludes from the ratio calculations Federal funds provided to an institution by the Secretary under program authorized by the HEA only if—

(i) In the notes to the institution's audited financial statement, or as a separate attestation, the auditor discloses by name and Catalogue of Federal Domestic Assistance (CFDA) number, the amount of HEA program funds reported as expenses in the Statement of Activities for the fiscal year covered by that audit or attestation; and

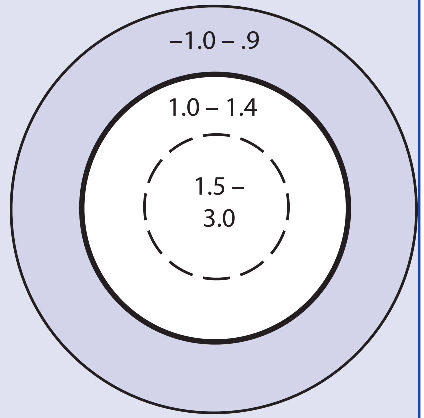
(ii) The institution's composite score, as determined by the Secretary, is less than 1.5 before the reported expenses arising from those HEA funds are excluded from the ratio calculations.

Composite score scale

1.5 to 3.0 Financially responsible without further oversight.

1.0 to 1.4 In the "Zone." The school is considered financially responsible, but additional oversight is required.

–1.0 to .9 Not financially responsible. The school must submit a letter of credit of at least 50% of its FSA funding. The school may be permitted to participate under provisional certification with a smaller letter of credit—with a minimum of 10% of its FSA funding and additional oversight.



Example: Calculation of a composite score for a proprietary institution*

Calculation of Ratios

Primary Reserve Ratio	=	Adjusted equity / Total expenses	= $760,000 / $9,500,000	= 0.080
Equity Ratio	=	Modified equity / Modified expenses	= $810,000 / $2,440,000	= 0.332
Net Income Ratio	=	Income before taxes / Total revenues	= $510,000 / $10,010,000	= 0.051

Calculation of Strength Factor Score

Primary Reserve Strength Factor Score = 20 x Primary Reserve Ratio
20 x 0.080 = 1.600
Equity Strength Factor Score = 6 x Equity Ratio
6 x 0.332 = 1.992
Net Income Strength Factor Score = 1 + (33.3 x Net Income Ratio)
1 + (33.3 x 0.051) = 2.698

Calculation of Weighted Score

Primary Reserve Weighted Score = 30% x Primary Reserve Strength Factor Score
0.30 x 1.600 = 0.480
Equity Weighted Score = 40% x Equity Strength Factor Score
0.40 x 1.992 = 0.797
Net Income Weighted Score = 30% x Net Income Strength Factor Score
0.30 x 2.698 = 0.809

Composite Score

Sum of All Weighted Scores 0.480 + 0.797 + 0.809 = 2.086 rounded to 2.1

* The definition of terms used in the ratios and the applicable strength factor algorithms and weighting percentages are found in the Student Assistance General Provisions (regulations) (34 CFR 668) Subpart L, Appendix A for proprietary schools and Appendix B for private nonprofit schools.

Compliance thresholds for timely return of funds

The Department provides for a small margin of error in determining that a school has paid all required refunds and returns on time. The Department considers a school to have paid returns in a timely manner if—

- there is less than a 5% error rate in a sample of returns (composed of students for whom the school was required to return unearned funds) examined in a compliance audit, an audit conducted by the Office of the Inspector General (OIG), or a program review conducted by the Department or guaranty agency, or
- there are no more than two late returns in the sample (regardless of the number or percentage of late returns in the sample).

In addition, if the reviewer or auditor finds a material weakness or reportable condition in the school's report on internal controls relating to the return of unearned Title IV aid, the Department considers the school to have not paid returns in a timely manner.

Letter of credit required when funds are not returned in timely manner

Public schools and schools covered by a state tuition recovery fund that has been approved by the Department are not subject to the letter of credit requirements. If any other school exceeds the compliance thresholds in either of its two most recently completed fiscal years, the school must submit an irrevocable letter of credit acceptable and payable to the Department. The letter of credit must be equal to 25% of the returns the school made or should have made during its most recently completed fiscal year.

A school that is required to submit a letter of credit must do so no later than 30 days after the earlier of the date that:

- the school is required to submit its compliance audit;
- the OIG issues a final audit report;
- the designated department official issues a final program review determination;
- the Department issues a preliminary program review report or draft audit report, or a guaranty agency issues a preliminary report showing that the school did not return unearned funds for more than 10% of the sampled students; or
- ED sends a written notice to the school requesting the letter of credit that explains why the school has failed to return unearned funds in a timely manner.

Return of Title IV funds

The requirements for return of Title IV funds for students who withdraw from the educational program are described the *FSA Handbook, Volume 5*.

Making new awards with returned funds
After a school has returned unearned funds to its federal account, provided those funds were originally received from the Department or from an FFEL lender under a process that allows the school to reuse the unearned funds, the school can use the funds to make disbursements to other eligible students.

Deposit to operating account or separate federal bank account
A school that maintains a separate federal bank account must deposit to that account, or transfer from its operating account to its federal account, the amount of unearned program funds, as determined under the Return of Title IV funds regulations. The date the school makes that deposit or transfer is the date used to determine whether the school returned the funds within the 45-day time frame permitted in the regulations.

Unless the Department requires a school to use a separate account, the school may use its operating account for FSA purposes. In this case, the school must designate that account as its federal bank account and have an auditable system of records showing that the funds have been allocated properly and returned in a timely manner. If there is no clear audit trail, the Department can require the school to begin maintaining FSA funds in a separate bank account.
34 CFR 668.163(a)

Address for Letters of Credit

Letters of credit are submitted to:

Director
Performance Improvement & Procedures
U.S. Department of Education
Federal Student Aid
830 First Street, NE
UCP-3, MS 5435
Washington, DC 20002-8019

If the finding in the preliminary report is that the school did not return unearned funds in a timely manner for 10% or fewer of the sampled students, a school would generally be required to submit the letter of credit only if the final report shows that the school did not return unearned funds in a timely manner for 5% or more of all the students in the sample. If the final report indicates that a letter of credit is required, the school would have to submit it no later than 30 days after the final report is issued.

Exceptions to the letter of credit requirement

A school is not required to submit a letter of credit of less than $5,000. However, to meet the reserve requirement, such a school would need to demonstrate that it has available at all times cash reserves of at least $5,000 to make required returns.

In addition, a school may delay submitting a letter of credit while it asks for reconsideration of a finding that it failed to return unearned FSA funds in a timely manner. A school may request that the Department reconsider its finding if the school submits documents showing that:

- the unearned FSA funds were not returned in a timely manner solely because of exceptional circumstances beyond the school's control and that the school would not have exceeded the applicable threshold had it not been for the exceptional circumstances; or
- it did not fail to make timely returns.

A school that submits an appeal with all required supporting documents by the date the letter of credit would be due is not required to submit the letter unless the Department notifies the school that its request was denied.

Current in debt payments

A school is not current in its debt payments if

- it is in violation of any existing loan agreement at its fiscal year end, as disclosed in a note to its audited financial statements or audit opinion, or
- it fails to make a payment in accordance with existing debt obligations for more than 120 days, and at least one creditor has filed suit to recover funds under those obligations.

ALTERNATIVES TO THE GENERAL FINANCIAL STANDARDS

If a school does not meet the general standards for financial responsibility, the Department may still consider the school to be financially responsible or may allow the school to participate under provisional certification if the school qualifies for an alternative standard.

If the Department determines that a school that does not meet one or more of the general standards and does not qualify for an alternative, the Department may initiate a limitation, suspension, or termination action against the school (see *Chapter 2* for more information on corrective actions and sanctions).

Letter of credit alternative for new school

A new school (a school that seeks to participate in the FSA programs for the first time) that does not meet the composite score standard (i.e., has a composite score of less than 1.5) but meets all other standards may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50% of the FSA program funds that the Department determines that the school will receive during its initial year of participation.

Letter of credit alternative for participating school

A participating proprietary or private nonprofit school that fails to meet one or more of the general standards or is not financially responsible because it has an adverse audit opinion may demonstrate financial responsibility by submitting an irrevocable letter of credit to the Department. The letter of credit must be acceptable and payable to the Department and equal to at least 50% of the FSA program funds that the school has received during its most recently completed fiscal year. The school is then considered to be financially responsible.

Zone alternative

A participating school that fails to meet the composite score standard (i.e., has a composite score of less than 1.5) but meets all other standards may demonstrate financial responsibility for up to three consecutive fiscal years if the Department determines that the school's composite score is equal to 1.0 to 1.4 for each of those years and the school meets specific monitoring requirements.

This alternative gives a school the opportunity to improve its financial condition over time without requiring the school to post a letter of credit or participate under provisional certification. Under the zone alternative, a school's operations, including its administration of the FSA programs, are monitored more closely. If a school does not score at least 1.0 in one of the three subsequent fiscal years or does not improve its financial condition to attain a composite score of at least 1.5 by the end of the

Alternative standards and requirements
34 CFR 668.175

Information to be provided under the zone alternative
The school must provide timely information regarding any of the following oversight and financial events:
• Any adverse action, including a probation or similar action, taken against the institution by its accrediting agency;
• Any event that causes the institution, or related entity as defined in the *Statement of Financial Accounting Standards* (SFAS) 57, to realize any liability that was noted as a contingent liability in the institution's or related entity's most recent audited financial statement;
• Any violation by the institution of any loan agreement;
• Any failure of the institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
• Any withdrawal of owner's equity from the institution by any means, including by declaring a dividend; or
• Any extraordinary losses, as defined in accordance with Accounting Principles Board (APB) Opinion No. 30.

The school may also be required to:
• submit its financial statement and compliance audits earlier than the time specified under 34 CFR 668.23(a)(4); and
• provide information about its current operations and future plans.
34 CFR 668.175(d)(2)

three-year period, the school must satisfy another alternative standard to continue participating. In addition, if a school fails to comply with the information reporting or payment method requirements, the Department may determine that the school no longer qualifies under this alternative.

Under the zone alternative, a school—

- must request and receive funds under the cash monitoring or reimbursement payment methods, as specified by the Department (see *Volume 5* of the *FSA Handbook*);
- must provide timely information regarding certain oversight and financial events (see sidebar on previous page);
- may be required to submit its financial statement and compliance audit earlier than normally required (see the discussion of audit submission deadlines earlier in this chapter); and
- may be required to provide information about its current operations and future plans.

The school must also require its auditor to express an opinion, as part of the school's compliance audit, on the school's compliance with the requirements of the zone alternative, including the school's administration of the payment method under which the school received and disbursed FSA program funds.

Provisional certification for school not meeting standards

If a participating proprietary or private nonprofit school fails to meet one or more of the general standards or is not financially responsible because it has an unacceptable audit opinion, the Department may permit the school to participate under provisional certification for up to three years.

The Department may permit a school that is not financially responsible to participate under provisional certification if the school is not financially responsible because it:

- does not satisfy the general standards;
- has an unacceptable audit opinion; or
- has a past performance problem that has been resolved.

If the Department permits a school to participate under provisional certification, the Department will require the school:

- to submit to the Department a letter of credit, payable and acceptable to the Department, for a percentage (10%–100%) of the FSA program funds received by the school during its most recent fiscal year.

Conditions of institutional ineligibility
34 CFR 600.7
In addition to the limitations discussed in this chapter, a school is not eligible if it (or its owner) files for bankruptcy or if the school, its owner, or its CEO is responsible for a crime involving FSA program funds. See *Volume 1*.
A school that becomes ineligible because of one of these factors must immediately stop awarding FSA funds and must follow the requirements for a school that has lost its FSA participation (see *Chapter 2)*.

- to show it met all of its financial obligations and was current on its debt payments for its two most recent fiscal years.

Moreover, the school must comply with the requirement under the zone alternative that it provide timely information regarding certain oversight and financial events. Finally, a school that is required to post a letter of credit will be placed on heightened cash monitoring or reimbursement.

If a school is still not financially responsible at the end of a period of provisional certification, the Department may again permit provisional certification. However, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's FSA program participation. The same persons may be required to agree to be jointly and severally liable for any FSA program liabilities.

The Department is not required to offer provisional certification to a school. It is an alternative that the Department may choose to offer in exceptional circumstances.

Provisional certification for school where persons or entities owe liabilities

If a school is not financially responsible because the persons or entities that exercise substantial control over the school owe an FSA program liability, the Department may permit the school to participate under provisional certification if:

- the persons or entities that owe the liability repay or enter into an agreement with the Department to repay the liability (or the school assumes the liability and repays or enters into an agreement to repay the liability);
- the school meets all the general standards of financial responsibility and demonstrates that it has met all of its financial obligations and was current on its debt payments for its two most recent fiscal years; and
- the school submits to the Department a letter of credit, payable and acceptable to the Department, for an amount determined by the Department (at least 10% of the FSA program funds received by the school during its most recent fiscal year).

The school also must comply with the requirements under the zone alternative.

In addition, the Department may require the school or persons or entities that exercise substantial control over the school to submit financial guarantees to the Department to satisfy any potential liabilities arising from the school's FSA program participation. The same persons may be required to agree to be jointly and severally liable for any FSA program liabilities.

PAST PERFORMANCE & AFFILIATION STANDARDS

Past performance
34 CFR 668.174

In addition to meeting the numeric standards of financial responsibility and fulfilling all its financial obligations, a school must demonstrate that it properly administers the FSA programs in which it participates. Past actions of the school or individuals affiliated with the school may reveal mismanagement of FSA program funds, thereby demonstrating that a school is not financially responsible. Therefore, in evaluating the way a school administers the FSA programs, the Department considers the past performance of both the school and individuals affiliated with the school.

Past performance of a school

A school is not financially responsible if it—

- in the last five years, has been subject to a limitation, suspension, or termination action or has entered into an agreement to resolve a limitation, suspension, or termination action initiated by the Department or a guaranty agency;
- in either of its two most recent FSA program reviews or audits, has had findings for the current fiscal year or two preceding fiscal years that required repayment of more than 5% of the FSA program funds received by the school;
- has been cited during the last five years for failing to submit audits as required; or
- has failed to satisfactorily resolve any compliance issues identified in program reviews or audit reports, upheld in a final decision of the Department.

Past performance of persons affiliated with a school

A school is not financially responsible if any person who exercises substantial control over the school (or any members of the person's family alone or together) owes a liability for an FSA program violation or has ever exercised substantial control over another school (or a third-party servicer) that owes a liability for an FSA program violation, unless that person, family member, school, or servicer demonstrates that the liability is being repaid in accordance with an agreement with the Department.

The Department may consider a school that does not meet this requirement to be financially responsible if the school:

- notifies the Department that the individual repaid to the Department an acceptable portion of the liability, in accordance with the regulations;
- notifies the Department that the liability is currently being repaid in accordance with a written agreement with the Department; or

- demonstrates to the satisfaction of the Department: (1) why the person who exercises substantial control should nevertheless be considered to lack that control, or (2) why the person who exercises substantial control and each member of that person's family does not or did not exercise substantial control over the school or servicer that owes the liability.

LIMITATIONS

An otherwise eligible institution becomes an ineligible institution if the school exceeds

- the 50% limit on students without a high school diploma or equivalent,
- the incarcerated student limitation (25%), or
- the correspondence course limitation (50%) or the correspondence student limitation (50%).

A school must calculate these percentages to demonstrate compliance with a requirement or to demonstrate eligibility for a limitation waiver. For each of the tests, the calculation performed by the school must be attested to by the independent auditor who prepares the school's audited financial statement or its FSA compliance audit. If a school's initial or previous calculation was in error, the auditor's report must be part of the audit work papers and must include a recalculation. The auditor's attestation report must indicate whether the school's determinations (including any relevant waiver or exception) are accurate.

For each of the limitation requirements, the school must notify the Department (via Section G of the E-App) of the school's failure to meet a requirement, its falling within a prohibited limitation, or its ineligibility for a continued waiver, as applicable. The school's notification must occur by July 31 following the end of an award year. A school that fails to meet any of these requirements loses its eligibility to participate in any FSA program as of the last day of the most recent award year for which the school failed to meet the requirement.

If a school loses its eligibility because it failed to meet one or more of the limitation requirements, the school cannot regain eligibility until it can demonstrate that it was in compliance with all of the limitation requirements for the most recently completed award year. Once this has occurred the school may apply to regain its eligibility. In addition, it must also show how its administrative practices and policies have been changed to ensure that it will not fall within prohibited limits in the future.

Correspondence student eligibility

For information about a student's eligibility for FSA funds while enrolled in a correspondence course and cost of attendance information for correspondence courses, see the *FSA Handbook Volume 1, Chapter 1* and *Volume 3, Chapter 2*.

A school is the sum only of its eligible programs

Some postsecondary institutions offer programs that are eligible for FSA as well as programs that are not FSA eligible. For FSA program purposes, we consider an eligible institution is the sum of its "eligible programs."

To minimize the effect on its institutional eligibility of offering programs solely by correspondence that do not lead to a degree, a school might choose to identify those programs as not part of its FSA-eligible programs.

A program (and students enrolled therein) that was so identified would not be considered part of the school in these two formulas.

Notifying the Department when limit is exceeded

34 CFR 600.7(h)

If there is a change to any of a school's answers to the Yes/No questions in Section G of a submitted Electronic Application (E-App) (which deal with enrollment thresholds in these areas), the school must notify the Department via the E-App (see *Chapter 5* of the *FSA Handbook, Volume 2*).

The Department will advise the school of its options, including whether the school might be eligible for a waiver. (Waivers are available for the correspondence student limitation, the incarcerated student limitation, and the limitation on students without a high school diploma or equivalent.)

Limitation on students admitted without a high school diploma or equivalent

A school that does not provide a four-year bachelor's degree program or a two-year associate degree program is ineligible if, for its latest complete award year, more than 50% of its regular enrolled students had neither a high school diploma nor its equivalent.

If a public or private nonprofit institution exceeds the 50% limit because it serves significant numbers of these students through contracts with federal, state, or local government agencies, the Department may waive the limitation.

The waiver will only be granted if no more than 40% of the public or private nonprofit regular students not served through contracts with federal, state, or local government agencies to provide job training do not have a high school diploma or its equivalent. If granted, the waiver may be extended in each year the public or private nonprofit school continues to meet the requirements. The public or private nonprofit school's calculation must be attested to by an independent auditor.

Incarcerated student limitation

A school is ineligible if, in its latest complete award year, more than 25% of its regular students are incarcerated. A public or private nonprofit school can ask the Department to waive this limitation (see sidebar for details). If granted, the waiver is effective as long as the public or private nonprofit school continues to meet the waiver requirements each award year. For information on the eligibility of incarcerated students for FSA assistance, see *Volume 1, Chapter 1,* of the *FSA Handbook*.

Correspondence course & correspondence student limitation

In general, a school is ineligible if, for the last complete award year,

- more than 50% of the school's courses were correspondence courses (correspondence course limitation).
  Note: This limitation does not apply to a school that mainly provides vocational adult education or job training (as defined under Sec. 521(4)(C) of the Carl D. Perkins Vocational and Applied Technology Education Act).
- 50% or more of the school's regular enrolled students were enrolled in correspondence courses (correspondence student limitation).

  Note that the 50% limits apply to the school, not to its individual programs. An educational program composed entirely of correspondence courses could still be an eligible program if no more than 50% of the school's courses were offered through correspondence and the program met other eligibility requirements.

High School Student Limitation
34 CFR 668.7(a)(1)(iv)

Incarcerated student definition
A student who is serving a criminal sentence in a federal, state, or local penitentiary, prison; jail; reformatory; work farm; or other similar correctional institution (this does not include detention in a half-way house, home detention, or weekend-only sentences).

Waiver of incarcerated student limitation
➔ For a public or private nonprofit school offering only two-year or four-year programs that lead to associate or bachelor's degrees, the waiver applies to all programs offered at the school.
➔ However, if the public or private nonprofit school offers other types of programs, the waiver would apply to any of the school's two-year associate degree programs or four-year bachelor's degree programs, and also to any other programs in which the incarcerated regular students enrolled have a 50% or greater completion rate. (The calculation of this completion rate is specified in 34 CFR 600.7(e)(2) of the Institutional Eligibility regulations and must be attested to by an independent auditor.)
➔ A nonprofit school may request the waiver using the E-App (**http://www.eligcert.ed.gov**), by answering the questions in "Section G" and explaining in "question 69."

Limitations on incarcerated students & correspondence study
Incarcerated students
34 CFR 600.7(a)(1)(iii) and 600.7(c)
Correspondence study
Sec. 481(a)(3)(A) and (B) of the HEA

Carl D. Perkins Career and Technical Education Act of 2006
20 U.S.C. 2301

This limitation may be waived for a two-year associate or four-year baccalaureate degree program if the school can demonstrate to the Department that students enrolled in correspondence courses received no more than 5% of the total FSA program funds awarded to its students in the award year. Also note that the limitations on correspondence courses and correspondence students do not apply to a school that mainly provides vocational adult education or job training (as defined under section 3(3C) of the Carl D. Perkins Vocational and Applied Technology Education Act of 1995).

The school's correspondence course calculation and correspondence student calculation must be attested to by an independent auditor.

For additional information on correspondence study in the context of program eligibility, see *Volume 1, Chapter 2.*

COHORT DEFAULT RATES

A school's eligibility for the FSA programs can be affected by a high cohort default rate (CDR). The Department calculates a school's CDR based on information from the loan holders, including private lenders (for FFEL), schools (for Perkins), and the Direct Loan servicers.

The Department sends draft default rates to participating schools in February to allow each school an opportunity to review and correct the data that will be used to calculate its official cohort default rates. In September of each year, the Department issues the official cohort default rates. These rates are electronically delivered to schools and posted on the Web. Your school must be enrolled in the eCDR process for electronic delivery of the rates (see sidebar note for instructions and appeal procedures).

Time frames for cohort default rates

A school's annual CDR is based on a "cohort" of students who received FFEL or Direct Loans at your school and entered repayment in a single fiscal year (FY). The fiscal year that is used is the federal fiscal year (October 1–September 30).

For instance, your school's FY 2009 CDR is based on the cohort of students who received FFEL or Direct Loans at your school and entered repayment on those loans between October 1, 2008, and September 30, 2009. This number becomes the denominator (the lower part of the fraction) in the CDR calculation.

$$\frac{\textbf{X}}{\textbf{Total borrowers who enter repayment during FY2009}}$$

The eCDR process

The Department sends the draft and official cohort default rates electronically to all schools participating in the FSA Programs. You must enroll in the eCDR process to receive your rates.

If your school is not enrolled, go to **www.fsawebenroll.ed.gov**

On that page choose "Enroll" and then select the radio button for "Modify Existing Services for a Destination Point."

Default rates on the Web

Searchable default rates for all schools participating in the FSA programs are posted on the Web at www.ed.gov/FSA/defaultmanagement.

The Department also publishes *Budget Lifetime Default Rates* and *Cumulative Lifetime Default Rates* for the FFEL and Direct Loan Programs. These rates, which include additional defaults in years after the close of the CDR "default window," do not affect a school's eligibility.

Default rates and suspension

34 CFR Part 668

- Calculation of rates
  Subpart M Two-Year Cohort Default Rates
  Subpart N Cohort Default Rates
- Consequences of default rates
  34 CFR 668.16(m)

CDR calculation and sanctions in the law
HEA: Sec. 435(m)
20 U.S.C. 1082, 1085, 1094, 1099c

Cohort Default Rate Guide

For more technical information on default rates and procedures for challenges, adjustments, and appeals, please refer to the *Cohort Default Rate Guide*.

ifap.ed.gov/DefaultManagement/finalcdrg.html

School Participation Team contacts

You can locate the School Participation Team for your region by going to the "Help" menu on the IFAP website and choosing **Contact Information > Federal Student Aid Offices.**

The Department tracks this group of students during the fiscal year in which they enter repayment and through the end of the following fiscal year. The sum of students who default on their loans (or meet other related conditions) during those two fiscal years become the numerator (top part of the fraction) in the CDR calculation.

Total borrowers who entered repayment in FY2009 who defaulted in FY2009 and FY2010
Total borrowers who entered repayment during FY2009

Because it takes two years to track the outcomes, the initial FY 2009 CDR for your school is not released until two years later, at the beginning of 2011. This is one of the reasons that your school should closely monitor student borrowing and implement effective default prevention procedures as soon as possible. The steps you take to help your students this year may reduce the number of defaults in your school's CDR two years down the road.

The terminology, criteria, calculations, and exceptions for the rates are described in more detail in the *Cohort Default Rate Guide*.

Change to three-year time frame for FY2009 cohort default rates

Beginning with the cohort of students who enter repayment in FY 2009 (October 1, 2008–September 30, 2009), schools will receive both a two- and three-year cohort default rate. Cohort default rates will now be calculated as the percentage of borrowers in the cohort who default before the end of the second fiscal year following the fiscal year in which the borrowers entered repayment. Schools will continue to receive two rates until 2014 when the 2011 three-year cohort default rates are released.

No sanctions will be applied to schools based on the new rates until three annual rates have been calculated. As stated, this will occur in 2014. However, if a school's FY 2009 three-year cohort default rate is equal to or greater than 30 percent, the school must establish a default prevention task force that prepares a plan to identify the factors causing cohort default rates to exceed 30 percent, and the school must submit the plan to the Department for review. During this transition period, sanctions will be based on the two-year cohort default rate described in the previous section.

Contacting the default office

The Operations Performance Division in Federal Student Aid responds to questions about FFEL/DL cohort default rates and reviews FFEL/DL cohort default rate challenges, adjustments, and appeals. It also provides technical assistance and outreach to schools to assist them in lowering their default rates.

Web: **ifap.ed.gov/DefaultManagement**
Hotline: 202-377-4259
FAX: 202-275-0913
E-MAIL: fsa.schools.default.management@ed.gov

Default prevention & management plan

34 CFR 668.217
See **http://www.ifap.ed.gov/DefaultPreventionResourceInfo/index.html** for more information.

Default prevention & management plan for new schools

New schools are required to implement a default prevention and management plan prior to certification. In addition, a school that undergoes a change in ownership that results in a change in control or a school that changes its status as a main campus, branch campus, or additional location must also implement a default management plan.

Schools applying to participate are exempt from submitting a default plan if—
- the school, including its main campus and any branch campus, does not have a cohort default rate greater than 10%, and
- the new owner of the school does not own and has not owned any other school that had a cohort default rate greater than 10% during the owner's tenure.

Sample Default Plan

A "Sample Default Prevention and Management Plan" was issued as an attachment to GEN-05-14. The sample plan is also posted in the collection of "Default Rate Materials" on the IFAP website.

Effect of cohort default rates

Currently a school is not considered to be administratively capable when

- the cohort default rate for Perkins loans made to students for attendance at the school exceeds 15% (see *Volume 7* for details), or
- the cohort default rate for Federal Stafford/SLS loans or for Direct Subsidized/Unsubsidized Loans made to students for attendance at the school equals or exceeds 25% for the three most recent fiscal years, or if the most recent cohort default rate is greater than 40%.

When a high default rate demonstrates a lack of administrative capability, the Department may choose to provisionally certify such a school.

In addition to affecting a school's administrative capability and limiting the school's participation in the FSA programs, a high default rate may make a school ineligible to participate in the Direct Loan, Pell Grant, or Perkins programs. For detailed information on default requirements refer to the *Cohort Default Rate Guide* (posted on IFAP—see sidebar on previous page).

Default prevention & management plan

If your school's cohort default rate is equal to or greater than 30%, it must establish a default prevention task force that prepares a plan that—

- identifies the factors causing your cohort default rate to exceed the threshold,
- establishes measurable objectives and the steps your school will take to improve your cohort default rate, and
- specifies the actions your school will take to improve student loan repayment, including counseling students on repayment options.

You must submit your default prevention plan to your School Participation Team for review. If your cohort default rate is equal to or greater than 30% for two consecutive fiscal years, you must revise your default prevention plan and submit it to us for review.

Program Integrity

CHAPTER 2

Schools that participate in the FSA programs are generally required to have annual compliance and financial statement audits. This chapter will discuss the audit requirement and the financial standards and limitations that apply to a school's FSA eligibility. In addition, we will discuss program reviews and when a school's participation in the FSA programs ends.

FSA AUDIT REQUIREMENTS FOR SCHOOLS

A school that participates in any FSA program, including a participating foreign school, generally must have an independent auditor conduct an annual audit of the school's compliance with the laws and regulations that are applicable to the FSA programs in which the school participates (a compliance audit), and an audit of the school's financial statements (a financial statement audit).

While a compliance audit covers the school's administration of the FSA programs, a financial statement audit provides the Department with information necessary to evaluate a school's status *vis-a-vis* the financial standards that are discussed later in this chapter.

The type of compliance audit a school or servicer must undergo depends on its type of control: public, for-profit, or nonprofit.

- All for-profit schools must have an FSA compliance audit conducted under the Office of Inspector General's (OIG) *Audit Guide* (for FSA school audits), which is available on the IFAP website.
- Public and nonprofit schools must comply with the Single Audit Act. The Single Audit Act requires these schools to have an audit conducted in accordance with the Office of Management and Budget's (OMB) Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. (Circular A-133 allows an FSA compliance audit under the criteria of the *Audit Guide* under limited circumstances.)

The OIG also conducts audits, usually in cases where there is concern over a school's administration of the FSA programs. An OIG or other federal audit does not satisfy the requirement that a school have annual compliance and financial statement audits performed by an independent public accountant.

CHAPTER 2 HIGHLIGHTS

- FSA audit requirements for schools
- Timing of audit submissions
- Standards & guidelines for FSA audits
- 90/10 revenue test
- Audits and the audit review process
- Audits for third-party servicers
- Program reviews by the Department
- Corrective actions and sanctions
- Closeout procedures (when FSA participation ends)
- Quality Assurance Program
- Experimental Sites Initiative

Related information

→ Administrative requirements, See *Volume 1 Chapter 6.*

School participation teams

For information regarding accounting and compliance issues, a school should contact the School Participation Team for its region. See the contact information on the IFAP website (**http://ifap.ed.gov/ifap/**).

Audit requirements & waiver

HEA: Sec. 487(c)
20 USC 1094
34 CFR 668.23(a)(1) to (5)
Waiver: 34 CFR 668.27

Independent CPA/auditor
An independent certified public accountant (CPA) or government auditor, except that a government auditor must meet the Government Auditing Standards qualification and independence standard, including standards related to organizational independence.

Opportunity to send comments to Small Business Ombudsman
The Small Business and Agriculture Regulatory Enforcement Ombudsman and 10 Regional Fairness Boards were established to receive comments from small businesses about federal agency enforcement actions. The ombudsman annually will evaluate the enforcement activities and rate each agency's responsiveness to small business. If you wish to comment on the enforcement actions of the Department of Education, call 1-888-REG-Fair (1-888-734-3247).

Fiscal year for 2012–2013
For schools using a calendar year as their fiscal year, their most recently completed fiscal year is the one that ended on December 31, 2012. For those schools using the award year as their fiscal year, their most recently completed fiscal year will be the one that ends on June 30, 2013.

Note that audit requirements also apply to third-party servicers. However, a school may never use a third-party servicer's audit in place of its own required audit because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers.

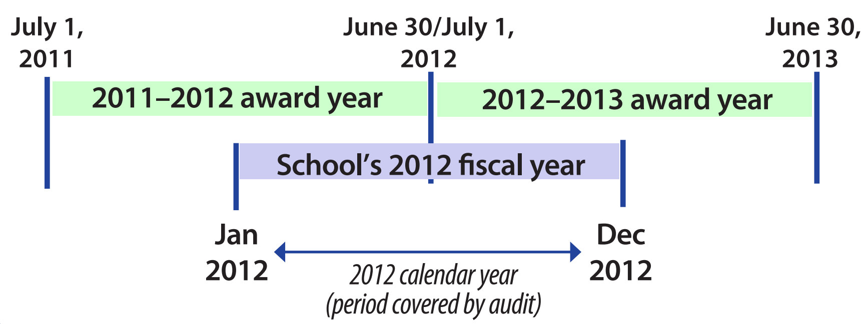
TIMING OF AUDIT SUBMISSIONS

Simultaneous FSA audit submissions

A school that has an audit performed under the *Audit Guide* for FSA schools must submit both the compliance audit and the audited financial statements within six months of the end of the school's fiscal year. Both audits must be prepared by an independent public accountant in accordance with the Generally Accepted Accounting Principles (GAAP) and audited in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The compliance audit and financial statement audit may be performed by different auditors. However, the audits must be submitted as one package.

Both the compliance audit and the financial statement audit must be performed on a fiscal-year basis. In cases where the school's fiscal year does not coincide with an award year, the school's compliance audit will cover parts of two award years (see example).

Example: school's fiscal year ≠ FSA award year



Submission dates for FSA audits

A school's or servicer's annual compliance and financial statements audits performed under the *Audit Guide* must be based upon the fiscal year and submitted to the Department within six months after the end of the school's or servicer's fiscal year. (These requirements do not apply to audits performed under the Single Audit Act that are due as specified in OMB Circular A-133.)

Audit submission due dates

School's fiscal year end date	*Both audits due*	*Period audited (financial & compliance)*
Sept 30, 2012	March 31, 2013	Oct 1, 2011 through Sept 30, 2012
Dec 31, 2012	June 30, 2013	Jan 1, 2012 through Dec 31, 2012
March 31, 2013	Sept 30, 2013	April 1, 2012 through March 31, 2013
June 30, 2013	Dec 31, 2013	July 1, 2012 through June 30, 2013

The chart above lists audit due dates and the period the audit must cover. (The chart provides information for the most common institutional fiscal-year-end dates.)

Generally, a school's first audit performed under these requirements must cover the entire period of time since the school began to participate in the FSA programs. Each subsequent audit must cover the period since the end of the period covered by the preceding audit that is accepted by the Department.

Waivers of requirement for an annual FSA audit

A school may request a waiver of the requirement for an annual audit for up to three years.

- A proprietary school must have disbursed less than $200,000 in each of the two most recently completed award years to be eligible for the waiver. (The school must also meet the other regulatory conditions in 34 CFR 668.27.)
- A public or private nonprofit institution that expends less than $500,000 in federal funds in a fiscal year is exempt from filing compliance audits after the school gains initial eligibility.

If the waiver is approved, the school must submit a compliance audit at the end of the waiver period covering each individual fiscal year in the waiver period and a financial statement audit for the last year of the waiver period.

This exception to the annual audit requirement may not be granted for the award year preceding a school's required recertification.

If the Department grants the waiver, the school doesn't have to send its compliance or audited financial statement until six months after

- the end of the third fiscal year following the fiscal year for which the school last submitted a compliance audit and audited financial statement; or

Audits required at end of waiver period

The regulations do not waive the requirement that a school audit its administration of the FSA programs; they waive the requirement that these audits be submitted on an annual basis. Therefore, if a school is granted a waiver for three years, when the waiver period expires and the school must submit its next compliance audit, that audit must cover the school's administration of the FSA programs since the end of the period covered by its last submitted compliance audit.

The auditor for a proprietary school must audit, and attest to, the school's annual 90/10 determination for each individual year in the waiver period (in accordance with 34 CFR 668.23(d)(4)).

Rescinding the waiver

The Department rescinds a waiver if the school:

• disburses $200,000 or more of FSA program funds for an award year;
• undergoes a change in ownership that results in a change of control; or
• becomes the subject of an emergency action or a limitation suspension, fine, or termination action initiated by the Department or a guaranty agency.

Qualifying For Waiver

To qualify for a waiver, a school must demonstrate that it:
• is not a foreign school;
• disbursed less than $200,000 in FSA program funds during each of the two completed award years prior to the audit period;
• agrees to keep records relating to each award year in the unaudited period for two years after the end of the regular record retention period for the award year;
• has participated in the FSA programs under the same ownership for at least three award years preceding the school's waiver request;
• is financially responsible under the general requirements of financial responsibility and does not rely on the alternative standards and requirements of exceptions to participate in the FSA programs;
• is not receiving funds under the reimbursement or cash monitoring system of payment;
• has not been the subject of a limitation, suspension, fine, or termination proceeding, or emergency action initiated by the Department or a guaranty agency in the three years preceding the school's waiver request;
• has submitted its compliance audits and audited financial statements for the previous two fiscal years, and no individual audit disclosed liabilities in excess of $10,000; and
• has submitted a letter of credit in the amount as determined below, which must remain in effect until the Department has resolved the audit covering the award years subject to the waiver.
For purposes of this section, the letter of credit amount is 10% of the total FSA program funds the school disbursed to or on behalf of its students during the award year preceding the school's waiver request.

Examples Of Effects Of Waivers

Example 1: The school is still required to have its administration of the FSA programs audited for the waiver period. If a school is granted a waiver for three years, when the waiver period expires, the next audit must cover the school's administration of the FSA programs since the end of the period covered by its last submitted compliance audit. For example, if a school's fiscal year coincides with an award year (July 1–June 30), it submits a compliance audit for its fiscal year that ends on June 30, 2012, and then receives a waiver so that its next compliance audit is due six months after the end of its 2014–2015 fiscal year. When it submits that audit, it must cover the 2012–2013, 2013–2014, and 2014–2015 fiscal years.

Example 2: If a school's fiscal year ends June 30, 2012, and the school receives a waiver on May 1, 2012, the next compliance audit is due six months after the end of the school's 2014–2015 fiscal year.

- the end of the second fiscal year following the fiscal year for which the school last submitted compliance and financial statement audits if the award year in which the school will apply for recertification is part of the third fiscal year.

A school's waiver request may include the fiscal year in which that request is made, plus the next two fiscal years.

A school remains liable for repaying any FSA funds it improperly expends during the waiver period. A compliance audit is the vehicle for discovering improper expenditures. Therefore, a school will be required to pay any liabilities when the school eventually submits a compliance audit for the fiscal years in which it made improper expenditures.

STANDARDS & GUIDELINES FOR FSA AUDITS

Audited financial statement requirement

A school's audited financial statement must cover the school's most recently completed fiscal year. The Department uses the information in a school's audited financial statement to evaluate the school's status *vis-a-vis* the financial standards discussed in this chapter. In addition to a school's audited financial statement, the Department may require that the school submit additional information. For example, the Department may require a school to submit or provide access to the auditor's work papers. Also, if the Department finds it necessary to evaluate a particular school's financial condition, the Department can require a school to submit audited financial statements more frequently than once a year.

FSA compliance audits

Compliance audits must be conducted in accordance with the general standards and the standards for compliance audits contained in the U.S. General Accountability Office's (GAO's) Government Auditing Standards. In addition, the auditor should use the following guidance, based on school type:

- Public and private nonprofit schools audited under Single Audit Act: OMB Circular A-133.
- For-profit schools, foreign schools, and third-party servicers: the latest *Audit Guide* for the FSA programs (see sidebar).

In conducting an audit, the auditor may also find it useful to consult *The Blue Book* and the *G5 Users Guide*, as applicable.

A school (or third-party servicer) may use the same independent auditor or auditing firm for its required nonfederal audit as the one that usually audits its fiscal transactions. To produce unbiased conclusions, the auditor must be independent of those authorizing the expenditure of FSA funds.

Audit guide (for FSA programs)
The official title of the Inspector General's audit guide for the FSA programs is *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.*

The audit guide and the "Blue Book" are available on the IFAP website (**http://ifap.ed.gov/**) under "Publications."

The G5 Users Guide is available at **https://www.g5.gov/.**

Financial statements must use accrual basis & GAAP standards
Financial statements must be prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) and audited by an independent auditor in accordance with GAGAS and other guidance contained in OMB Circular A-133, or in the Department's *Audit Guide* (for FSA school audits).

Circular A-133 & the Single Audit Act
Office of Management and Budget (OMB) Circular A-133 was issued pursuant to the Single Audit Act of 1984. The Single Audit Act was amended in 1996—the current requirements are found in Chapter 75 of title 31, U.S. Code.

Circular A-133 is titled "Audits of States, Local Governments, and Nonprofit Organizations " and is applicable to nonprofit postsecondary schools, states, local governments, and Indian tribal governments. For many schools, this is a combined audit of all the federal programs at that school. OMB circular A-133 is available through the OMB Home Page at **www.whitehouse.gov/omb/circulars/index.html**

Submitting A-133 audits
The Form SF-SAC and the Single Audit Reporting packages for fiscal periods ending on or after January 1, 2008, must be submitted online to the Federal Audit Clearinghouse.
http://harvester.census.gov/sac/

Annual financial statement
Section 487(c) of the HEA provides that all schools participating in the Federal Student Aid programs must submit *annual financial statements* to the Department. This applies to all schools, including nonprofit schools that are otherwise exempt from submitting annual audited financial statements under the A-133 standards.

The Department may require a school to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, other federal agencies, or accrediting agencies.

Single Audit Act (A-133 audit) guidelines

Nonprofit and public schools are required to have audits performed under the guidelines of the Single Audit Act. (These audits are also known as “A-133 audits” because the audit guidelines are established in OMB Circular A-133). A-133 audits satisfy the Department’s audit requirements.

A-133 audits have distinct auditing and submission requirements and must be submitted to the Federal Audit Clearinghouse. (A copy of the audit must also be submitted to the Department through the eZ-Audit website.) A school submitting an audit under the guidelines of the Single Audit Act must use the submission deadlines established by the Single Audit Act.

Exemptions

A school that expends less than $500,000 of federal funds during a fiscal year is exempt from submitting an annual A-133 audit. However, a school that spends less than $500,000 in all federal funds is still required to submit a financial statement to the Department within 6 months after the close of its fiscal year. The financial statement does not have to be audited by a CPA and may be created as compiled or reviewed statements. If the school has prepared a set of audited financial statements for its own use or for another entity, the school must submit those audited financial statements to the Department no later than six months after the end of the institution’s fiscal year.

Circular A-133 permits the submission of program-specific audits if an entity expends funds in only one federal program *and* the program’s regulations do not require a financial statement audit. The FSA program regulations require a financial statement audit. Therefore, a school may not submit a program-specific audit to satisfy the Department’s audit submission requirements.

Circular A-133 also now allows an independent auditor to use professional judgment to determine whether certain federal programs must be included in the scope of an audit. An independent auditor can exclude certain program components, such as FSA program funds, if they fall below a predetermined dollar and risk threshold.

The independent auditor must make an annual assessment of the dollar and risk conditions and determine whether such exclusions are appropriate and whether any FSA programs must be included within the scope of the audit. You can find additional information on this topic in the latest Compliance Supplement to Circular A-133.

FSA consolidated statements

In some cases, a school's relationship with another entity may cause the Department to require a school to submit additional financial statements both of the school and the entity, such as audited consolidated financial statements; audited full consolidated financial statements; audited combined financial statements; or, under certain circumstances, audited financial statements of one or more related parties. This occurs when the Department determines that the activities or financial health of another entity may affect the school's total financial health. So that the Department can make this determination, a school must include in its audited financial statements a detailed description of related entities based on the definition of a related entity in the *Statement of Financial Accounting Standards* (SFAS) 57. In addition, the description must include all related parties and a level of detail that would enable the Department to readily identify the related party. This information may include but is not limited to the name, location, and description of the related entity, including the nature and amount of any transaction between the related party and the school, financial or otherwise, regardless of when it occurred.

90/10 REVENUE TEST

A proprietary school must disclose the percentage of its revenues derived from the FSA programs that the school received during the fiscal year covered by the audit as a footnote to its audited financial statements. The school must also report in the footnote the dollar amount of the numerator and denominator of its 90/10 ratio as well as the individual revenue amounts identified in Section 2 of Appendix C to Subpart B of Part 668 (see sidebar).

A school that converts from a for-profit to a nonprofit status must report its compliance with the 90/10 revenue test for the first year after its conversion. A school changing from for-profit to nonprofit must continue to file this report for the first year of its nonprofit status.

To be eligible for FSA participation, a proprietary school must derive at least 10% of its revenues for each fiscal year from sources other than the FSA programs, or be subject to sanctions. The calculation of this percentage and the funds included must be arrived at using the cash basis of accounting. A school must determine its revenue percentages using the formula described in the chart on the following pages each fiscal year.

Proprietary schools have 45 days after their most recent fiscal year has ended to report to the Department if they did not satisfy the 90/10 Rule for that period.

90/10 Rule

Guidance on footnote disclosures can be found in the *FSA Audit Guide*, in 34 CFR 668.23(d)(4), and in appropriate accounting references.

See DCL GEN-08-12 for changes made by the *Higher Education Opportunity Act of 2008* (section 493), moving 90/10 rule to the Program Participation Agreement (from the definition of a proprietary institution of higher education).

Earlier guidance on 90/10 and institutional loans and scholarships can be found in Dear Partner Letter GEN-99-33 and Dear CPA Letters CPA-99-01 and CPA-99-02.

HEA section 487
34 CFR 668.14(b)(16)
34 CFR 668.28

Notifying ED—90/10

A school must send notice of its failure to satisfy the 90/10 Rule to the Department by U.S. mail or commercial overnight to the following address:

U.S. Department of Education,
Federal Student Aid
School Eligibility Service Group
830 First Street, NE
Washington, DC 20202-5403

General e-mail: **Caseteams@ed.gov**
Contact phone numbers for the teams are provided at: **http://eligcert.ed.gov/.**

Counting Revenues For The 90/10 Rule

Section 668.28(a) of the Student Assistance General Provisions provides the following explanation of how to count revenue from FSA vs. non-FSA sources: See Appendix C of Subpart B of the Student Assistance General Provisions for calculation procedures.

(3) Revenue generated from programs and activities.
The institution must consider as revenue only those funds it generates from—

(i) Tuition, fees, and other institutional charges for students enrolled in eligible programs as defined in §668.8;

(ii) Activities conducted by the institution that are necessary for the education and training of its students provided those activities are—

(A) Conducted on campus or at a facility under the institution's control;

(B) Performed under the supervision of a member of the institution's faculty; and

(C) Required to be performed by all students in a specific educational program at the institution; and

(iii) Funds paid by a student, or on behalf of a student by a party other than the institution, for an education or training program that is not eligible under §668.8 if the program—

(A) Is approved or licensed by the appropriate state agency;

(B) Is accredited by an accrediting agency recognized by the Secretary under 34 CFR part 602;

(C) Provides an industry-recognized credential or certification, or prepares students to take an examination for an industry-recognized credential or certification issued by an independent third party;

(D) Provides training needed for students to maintain state licensing requirements; or

(E) Provides training needed for students to meet additional licensing requirements for specialized training for practitioners that already meet the general licensing requirements in that field.

(4) Application of funds.
The institution must presume that any Title IV, HEA program funds it disburses, or delivers, to or on behalf of a student will be used to pay the student's tuition, fees, or institutional charges, regardless of whether the institution credits the funds to the student's account or pays the funds directly to the student, except to the extent that the student's tuition, fees, or other charges are satisfied by—

(i) Grant funds provided by nonfederal public agencies or private sources independent of the institution;

(ii) Funds provided under a contractual arrangement with a federal, state, or local government agency for the purpose of providing job training to low-income individuals who need that training;

(iii) Funds used by a student from a savings plan for educational expenses established by or on behalf of the student if the saving plan qualifies for special tax treatment under the Internal Revenue Code of 1986; or

(iv) Institutional scholarships that meet the requirements in paragraph (a)(5)(iv) of this section.

(5) Revenue generated from institutional aid.
The institution must include the following institutional aid as revenue:

(i) For loans made to students and credited in full to the students' accounts at the institution on or after July 1, 2008, and prior to July 1, 2012, include as revenue the net present value of the loans made to students during the fiscal year, as calculated under paragraph (b) of this section, if the loans—

(A) Are bona fide as evidenced by standalone repayment agreements between the students and the institution that are enforceable promissory notes;

(B) Are issued at intervals related to the institution's enrollment periods;

(C) Are subject to regular loan repayments and collections by the institution; and

(D) Are separate from the enrollment contracts signed by the students.

[For rules on calculating the Net Present Value of the these loans, see 34 CFR 668.28(b) and the Appendix C to Subpart B]

(ii) For loans made to students before July 1, 2008, include as revenue only the amount of payments made on those loans that the institution received during the fiscal year.

(iii) For loans made to students on or after July 1, 2012, include as revenue only the amount of payments made on those loans that the institution received during the fiscal year.

(iv) For scholarships provided by the institution in the form of monetary aid or tuition discount and based on the academic achievement or financial need of its students, include as revenue the amount disbursed to students during the fiscal year. The scholarships must be disbursed from an established restricted account and only to the extent that the funds in that account represent designated funds from an outside source or income earned on those funds.

(6) Revenue generated from loan funds in excess of loan limits prior to the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA).
For each student who receives an unsubsidized loan under the FFEL or Direct Loan programs on or after July 1, 2008 and prior to July 1, 2011, the amount of the loan disbursement for a payment period that exceeds the disbursement for which the student would have been eligible for that payment period under the loan limit in effect on the day prior to enactment of the ECASLA is included and deemed to be revenue from a source other than Title IV, HEA program funds but only to the extent that the excess amount pays for tuition, fees, or institutional charges remaining on the student's account after other Title IV, HEA program funds are applied.

(7) Funds excluded from revenues.

For the fiscal year, the institution does not include—

(i) The amount of Federal Work-Study (FWS) wages paid directly to the student. However, if the institution credits the student's account with FWS funds, those funds are included as revenue;

(ii) The amount of funds received by the institution from a state under the LEAP, SLEAP, or GAP programs;

(iii) The amount of institutional funds used to match Title IV, HEA program funds;

(iv) The amount of Title IV, HEA program funds refunded or returned under §668.22. If any funds from the loan disbursement used in the return calculation under §668.22 were counted as non-Title IV revenue under paragraph (a)(6) of this section, the amount of Title IV, HEA program funds refunded or returned under §668.22 is considered to consist of pre-ECASLA loan amounts and loan amounts in excess of the loan limits prior to ECASLA in the same proportion to the loan disbursement; or

(v) The amount the student is charged for books, supplies, and equipment unless the institution includes that amount as tuition, fees, or other institutional charges.

Other 90/10 guidance

Cash basis of accounting

Except for institutional loans made to students under 34 CFR 668.28(a)(5)(i), a proprietary school must use the cash basis of accounting in calculating its revenue percentage under the 90/10 Rule. Under the cash basis of accounting, revenue is recognized when received rather than when it is earned.

Revenue

For the purpose of calculating the qualifying percentages under the 90/10 Rule, revenue is an inflow or other enhancement of assets to an entity, or a reduction of its liabilities resulting from the delivery or production of goods or services. A school may recognize revenue only when the school receives cash, i.e., when there is an inflow of cash. As a result, in order for a school to recognize revenue under the cash basis of accounting, that revenue must represent cash received from a source outside the institution.

Tuition waivers

Institutional grants in the form of tuition waivers do not count as revenue because no new revenue is generated. Similarly, internal transfers of cash among accounts are not considered revenue because they do not represent an inflow of cash to the institution. Institutional scholarships are not revenues generated by the school (unless they are donated by an unrelated or outside third party). An exception is permitted for schools to use donations from a related party to create restricted accounts for institutional scholarships, but only the amount earned on the restricted account and used for scholarships would count as revenue in the denominator of the calculation.

Funds held as credit balances in institutional accounts cannot be counted in the 90/10 formula. However, once funds held as credit balances are used to satisfy institutional charges, they would be counted in both the numerator and the denominator of the formula.

Revenues from loans

When a school makes a loan to a student, it does not receive cash from an outside source. Accordingly, cash revenue from institutional loans is recognized only when those loans are repaid because that is when there is an inflow of cash from an outside source. Loan proceeds from institutional loans that were disbursed to students may not be counted in the denominator of the fraction because these proceeds neither generate nor represent actual inflows of cash. The school may include only loan repayments it received during the appropriate fiscal year for previously disbursed institutional loans.

Loans made by a private lender that are in any manner guaranteed by the school are known as recourse loans. The proceeds from recourse loans may be included in the denominator of an institution's 90/10 calculation for the fiscal year in which the revenues were received, provided that the institution's reported revenues are also reduced by the amount of recourse loan payments made to recourse loan holders during that fiscal year. Note that recourse loan payments may be for recourse loans that were made in a prior fiscal year. Under the cash basis of accounting, the reductions to total revenues in the denominator of the 90/10 calculation are reported in the fiscal year when the payments are made.

The nonrecourse portion of a partial recourse loan may be included in a 90/10 calculation. In order to include a partial recourse loan in a 90/10 calculation, the contract must identify the percentage of the sale that is nonrecourse; only that percentage may be included. Furthermore, no after-the-fact adjustments may be provided for. Revenue generated from the sale of nonrecourse institutional loans to an unrelated third party may be counted as revenue in the denominator of the 90/10 calculation to the extent that the revenues represent actual proceeds from the sale.

The sale of institutional loan receivables is distinguishable from the sale of a school's other assets because receivables from institutional loans are produced by transactions that generate tuition revenue. Tuition revenue represents income from the major service provided by a school. That would not be true in the case of the sale of other school assets.

Counting LEAP funds

Note that the LEAP Program is not funded beyond July 1, 2011, so the following guidance applies to LEAP grants funded before that date.

If a state agency specifies the exact amount or percentage of LEAP funds included in an individual student's state grant, only the specified amount or percentage of the student's state grant up to $5,000 (the statutory maximum LEAP award) is considered LEAP funds.

If the state agency identifies a specific student's state grant as containing LEAP funds but does not provide an exact amount or percentage, the entire amount of the grant up to $5,000 is considered LEAP funds. State grant funds that are not LEAP/SLEAP are included in the denominator.

If the state agency does not specify the amount of LEAP funds included in a student's individual grant but does specify the percentage of LEAP funds in the entire amount of state grant funds provided to the school and the student meets the FSA student eligibility requirements, the school must apply this percentage to the individual student's total state grant to determine the amount of the grant up to $5,000 to be considered LEAP funds.

- If a school fails to satisfy the 90/10 rule for any fiscal year, it becomes provisionally certified for up to two fiscal years after the fiscal year it failed to satisfy the revenue requirement. (Among other factors, the provisional certification is limited by the expiration date of the school's program participation agreement.)
- If a school fails to satisfy the 90/10 rule for two consecutive fiscal years, it loses its eligibility to participate in the FSA programs for at least two fiscal years.

If the school loses eligibility, it must immediately stop awarding FSA funds and follow the closeout procedures described later.

AUDIT & AUDIT REVIEW PROCESS

Having the audit performed

The school or servicer must make its program and fiscal records, as well as individual student records, available to the auditor. (Required recordkeeping is discussed in *Volume 1 Chapter 7*.) Both the financial aid and business offices should be aware of the dates the auditors will be at the school, and make sure that someone is on hand to provide requested documents and answer questions during that period.

At the end of the on-site review, the auditor conducts an exit interview. At a school, this exit interview is usually conducted with the personnel from the school's financial aid and other relevant offices. The exit interview is not only an opportunity for the auditor to suggest improvements in procedures, but it also gives the school or servicer a chance to discuss the draft report and review any discrepancies cited in the report. The exit interview is a good time to resolve any disagreements before the final report is prepared.

The final report is prepared by the auditor and submitted to the school or servicer.

Review of FSA audit submissions

The Department reviews the audit report for format and completeness and to ensure that it complies with the government's auditing standards.

We will use the general information to make an initial determination of whether the audits are materially complete and conducted in accordance with applicable accounting standards. Based on the financial data, we will also make a preliminary determination as to whether your school is financially responsible with respect to the financial responsibility ratios, or in the case of a change in ownership resulting in a change in control, whether the school satisfies the financial ratio requirements (discussed later in this chapter). Later, the Department will review submissions to determine whether the school must provide additional information or ED should take further action.

Use of eZ-Audit required

Schools are required to submit their compliance audits, audited financial statements, and letters confirming their status as public schools through the Department's eZ-Audit Electronic Financial Reporting System.

This requirement applies to any compliance audits or financial statements required under 34 CFR 600.20(a) or (b) to begin or continue participating in the FSA programs, any financial statements required due to a change in ownership resulting in a change in control as provided under 34 CFR 600.20(g), any compliance audits and financial statements required annually under 34 CFR 668.23, and any compliance audits and financial statements required when a school ceases to participate in the FSA programs as provided under 34 CFR 668.26(b).

Information about eZ-audit

website: **http://ezaudit.ed.gov**
E-mail contact: **fsaezaudit@ed.gov**
eZ-Audit Help Desk: **877-263-0780.**

Cooperation with audit & review process

Throughout the audit process, and for other examinations such as program reviews and state reviews, the school or servicer is required to cooperate fully with its independent auditor, the Department and its Inspector General, the Comptroller General of the United States, its accrediting agency, and the appropriate guaranty agency.

eZ-Audit

The eZ-Audit website provides a paperless single point of submission for financial statements and audits (i.e., compliance reports). eZ-Audit provides automatic error checking as you enter the data and before submission. In addition, it gives you instant acknowledgment of receipt.

All schools that participate in the FSA programs must use eZ-Audit to submit financial statements and compliance audits (including copies of the A-133 reports that nonprofit and public institutions file with the Federal Audit Clearinghouse).

Nonprofit and public institutions are still required to submit their A-133 audits in writing to the federal clearinghouse.

The eZ-Audit Process

To access the eZ-Audit website you must be a registered user. Each school must select an eZ-Audit institution administrator who will be responsible for managing your school's access to the eZ-Audit website. This institution administrator will receive the user name and password necessary for your school's access and will be responsible for granting access to others you name as additional users.

Each registered user must sign and retain the eZ-Audit rules of behavior. (For registration instructions and to download the rules of behavior, please visit **http://ezaudit.ed.gov**).

Once you have obtained your school ID, you will access the appropriate page on the audit website, and—

1. enter general information about your school's compliance audit and financial statement;
2. enter specific financial data directly from its audited financial statement; and
3. attach authentic electronic copies of the audit originals.

After you have entered the required information, you must attach a copy of the audit prepared and signed by the independent auditor. The copy must be in a non-editable, portable document format (PDF) created using Adobe Acrobat version 5.0 or higher.

Based on the audit findings and the school's or servicer's written explanation, the Department will determine if any funds were spent improperly. Unless the school or servicer has properly appealed the decision, the school or servicer must repay any improperly spent funds within 45 days.

Access to records

Once the audit is complete, the school or servicer must give the Department and the OIG access to all records and documents needed to review the audit. A school that uses a third-party servicer must give the Department and the OIG access to all records and documents needed to review a third-party servicer's compliance or financial statement audit. In addition, the school's or servicer's contract with the auditor must specify that the auditor will give the Department and the OIG access to the records and documents related to the audit, including work papers. Cooperation includes providing timely and reasonable access to records (including computer records) for examination and copying, and to personnel for the purpose of obtaining relevant information.

Third-party servicers
Guidance for audits of third-party servicers is found in the January 2000 Department of Education's "Audit Guide, Audits of Federal Student Aid Programs at Participating Institutions and Institution Servicers."
34 CFR 668.23(a)(3) and (c)
34 CFR 668.23(d)(5)

AUDITS FOR THIRD-PARTY SERVICERS

Audit requirements also apply to third-party servicers. If a servicer contracts with several FSA schools, a single compliance audit can be performed that covers its administrative services for all schools. If a servicer contracts with only one FSA school and that school's own audit sufficiently covers the functions performed by the servicer, the servicer does not have to submit a compliance audit. A servicer must submit its compliance audit within six months after the last day of the servicer's fiscal year. The Department may require a servicer to provide a copy of its compliance audit report to guaranty agencies, lenders, state agencies, the Department of Veterans Affairs, or accrediting agencies.

In addition to submitting a compliance audit, a servicer that enters into a contract with a lender or guaranty agency to administer any aspect of the lender's or guaranty agency's programs must submit annually audited financial statements. The financial statements must be prepared on an accrual basis in accordance with GAAP and audited by an independent auditor in accordance with GAGAS and any other guidance contained in audit guides issued by the Department's Office of the Inspector General.

If the Department determines that, based on audit findings and responses, a third-party servicer owes a liability for its administration of the FSA programs, the servicer must notify each school with which it has a contract of the liability. Generally, unless they submit an appeal, schools and servicers owing liabilities must repay those liabilities within 45 days of being notified by the Department.

As noted earlier, a school may never use a third-party servicer's audit in place of its own required audit because the school is ultimately liable for its own violations as well as those incurred by its third-party servicers. (See *Volume 1, Chapter 3* for more information on third-party servicers.)

PROGRAM REVIEWS BY THE DEPARTMENT

One of the U.S. Department of Education's functions is to oversee the FSA programs to help ensure that they are administered properly. The Department conducts program reviews to confirm that a school meets FSA requirements for institutional eligibility, financial responsibility, and administrative capability. A program review will identify compliance problems at the school and identify corrective actions.

If a school is cited in a program review for improperly disbursing FSA program funds, the school must restore those funds as appropriate. If a school is cited in a program review for other serious program violations, the school may be subject to corrective action and sanctions, such as fines, emergency action, or limitation, suspension, or termination, as discussed later in this chapter.

A program review covers many of the same areas as an audit, including fiscal operations and accounting procedures, as well as the school's compliance with the specific program requirements for student eligibility and awards. However, program reviews are not conducted annually at every school. Priority is given to schools that meet certain criteria as specified in the law.

During a program review, Department reviewers evaluate the school's compliance with FSA requirements, assess liabilities for errors in performance, and identify actions the school must take to improve its future administrative capabilities. The reviewers will:

- analyze the school's data and records and identify any weaknesses in the school's procedures for administering FSA funds;
- determine the extent to which any weaknesses in the school's administration of FSA funds may subject students and taxpayers to potential or actual fraud, waste, and abuse;
- identify corrective actions that will strengthen the school's future compliance with FSA rules and regulations;
- quantify any harm resulting from the school's impaired performance and identify liabilities where noncompliance results in loss, misuse, or unnecessary expenditure of federal funds; and
- refer schools for administrative action to protect the interests of students and taxpayers, when necessary.

Scope of the review

A program review may be either a general assessment review, a focused review, or a compliance assurance review. A general assessment review is the most common type of review and is normally conducted to evaluate the school's overall performance in meeting FSA administrative and financial requirements. A focused review is normally conducted to determine if the school has problems with specific areas of FSA program compliance. A compliance assurance review is a tool that is used to help validate the Department's risk assessment system.

For general assessment, compliance assurance, and some focused reviews, the review team will identify students whose files will be reviewed. In general, a review sample consists of 15 randomly selected students from each award year under review. The academic file, student account ledger, student financial aid file, and the admissions file for each student in the review sample will be analyzed.

Reviewers will also examine school records that are not specific to individual students. These records include required policies and procedures, fiscal records, and consumer information (i.e., the school's website, school catalogs, pamphlets, etc.).

Related information

➔ Updating the E-App for changes to programs and locations—*Volume 2, Chapter 5* of the *FSA Handbook*

FSA assessments

To assess your school's compliance with the provisions of this chapter, see the FSA Assessment module for "Institutional Eligibility" (**http://ifap.ed.gov/qahome/qaassessments/institutionalelig.html**).

It may be necessary for the reviewer to conduct interviews with school officials, including academic or education personnel or the registrar, admissions personnel, financial aid personnel, fiscal office personnel, placement officer, and/or campus security personnel. In addition, the reviewer may interview students.

Location of the review

Program reviews are typically conducted at the institution. However, in some circumstances institutions are asked to submit copies of selected records to the Department for review at its offices, and interviews are conducted via telephone rather than in person.

Notification of the review

Most reviews are announced up to 30 days prior to the review by a telephone call to the president and financial aid administrator. The school also receives written notice of the review and is asked to provide relevant materials prior to the start of the review (e.g., policies and procedures, consumer publications, a list of FSA recipients, etc.). The school will also be expected to make other records available on-site at the start of the review. In some cases, notice for the review is given the day before the review (via overnight delivery or fax), the morning of the review (via fax), or at the time the review team arrives at the school.

Schools are required to cooperate with the Department in the event of a program review and provide unrestricted access to any information requested to conduct the review. Failure to provide this access to the program review team may lead to an adverse administrative action.

Entrance and exit/status conference

The review team will hold an entrance conference with school officials at the beginning of the review. The purpose of the entrance conference is to provide school officials with information about the review and the program review process and for reviewers to learn how federal student aid is processed at the school.

The review team will hold an exit or status conference at the end of a program review. The purpose of the exit conference is to inform school officials about the next steps in the process, summarize preliminary findings, advise school officials of any immediate changes that must be made, and/or provide details of any remaining outstanding items. If the fieldwork is not complete or the data has not been fully analyzed, a status meeting is conducted. A return visit may be necessary or an exit conference may be conducted via telephone after further analysis is completed.

Written report

The program review team prepares a preliminary written report after completion of the review. In most instances, this report will be sent to the school within approximately 60 days of the review. The school

Program review priority

The Department gives priority in program reviews to schools that meet criteria specified in the law as follows:

- a school has a high cohort default rate or dollar volume of default;
- a school has a significant fluctuation in Pell Grant awards or FSA loan volume that is not accounted for by changes in the programs
- a school is reported to have deficiencies or financial aid problems by the appropriate state agency or accrediting agency;
- a school has high annual dropout rates; and
- it is determined by the Department that the school may pose a significant risk of failing to comply with the administrative capability or financial responsibility requirements.

In addition, the Department is required to:

- establish guidelines designed to ensure uniformity of practice in the conduct of program reviews;
- make copies of all review guidelines and procedures available to all participating schools;
- permit schools to correct administrative, accounting, or recordkeeping errors if the errors are not part of a pattern and there is no evidence of fraud or misconduct; and
- inform the appropriate state and accrediting agency whenever it takes action against a school.

Communication with state agencies

The Higher Education Amendments of 1998, Public Law 105-244, require that each state (through at least one state agency) must:

- furnish the Department, upon request, information regarding licensing and other authorization for a school to operate in that state;
- promptly notify the Department of revocations of licensure or authorization; and
- promptly notify the Department of credible evidence that a school has committed fraud in the administration of the FSA programs or has substantially violated a provision of the HEA.

Department's recognition of state agencies
Sec. 495 of the HEA
20 USC 1087–1(b)
34 CFR 603

Case Management & School Participation Teams

Case management is the Department's approach to oversight of schools that participate in the FSA programs. School Participation Management conducts program reviews, reviews compliance audits and financial statements, reviews recertification applications, and provides the Department with a picture of a school's overall compliance through the use of School Participation Teams.

FSA's School Eligibility Service Group (SESG) coordinates the case management approach. School Participation Teams are staffed by personnel in the regions and in Washington, DC, and each is assigned a portfolio of schools. Each team is responsible for oversight functions for the schools in its portfolio. These functions include audit resolution, program reviews, financial statement analysis, initial eligibility and recertification, and method of payment.

The entire team will evaluate information on the school from a variety of sources to identify any compliance issues at the school. The team can then assess potential risk to the FSA programs and determine appropriate action. Once appropriate actions are decided upon, the case manager assigned to the school ensures that the recommended actions are taken.

School Participation Teams will collect and review information on a school from many sources, including but not limited to:

- applications for recertification,
- financial and compliance audits,
- state agencies,
- accrediting agencies and licensing boards,
- student complaints, and
- Department databases.

A School Participation Team may decide to take actions that include but are not limited to:

- renewing full recertification or awarding only provisional certification;
- initiating a program review;
- establishing liabilities;
- developing a strategy for providing technical assistance,
- transferring the school to the cash monitoring or reimbursement payment method (see *Volume 5: Managing Federal Funds*);
- requiring a letter of credit; and
- referring the school for an enforcement action.

Actions do not always have to be negative. For example, the School Participation Team can recommend a school for participation in the Quality Assurance Program.

Case management provides the additional benefit of permitting a school to contact one team that will have all information on the school available in one place. (For a list of phone numbers for the regional School Participation Teams, see the "Help" link on the IFAP website (**http://ifap.ed.gov**).

may respond to this report if it wishes to offer additional information to support its position or if it disagrees with any of the report's findings. When the Department has fully considered the school's response and any additional documentation provided by the school, the Department will send a Final Program Review Determination (FPRD) letter to the school.

Final Program Review Determination (FPRD)

An FPRD is a report that includes each finding identified in the program review report, the school's response, and the Department's final determination. The FPRD may require the school to take further action to resolve one or more of the findings. This action may include making student level adjustments in COD and the G5 payment system, and paying liabilities to the Department, student, or lenders on behalf of the student.

Any funds the school owes as a result of the FPRD must be repaid within 45 days of the school's receipt of the FPRD unless the school submits an appeal to the Department or enters into a payment plan with the Department's Financial Management Group. The cover letter of the FPRD provides instructions on how to file an appeal. If payment or an appeal is not received within 45 days, the Department may elect to use administrative offset to collect the funds owed.

Administrative subpoena authority
HEA Sec. 490A
The amendments of 1998 give the Department the authority to issue administrative subpoenas to assist in conducting investigations of possible violations of the provisions of FSA programs. In addition, the law authorizes the Department to request the attorney general to invoke the assistance of any court of the United States for purposes of enforcing a subpoena if necessary.

CORRECTIVE ACTIONS & SANCTIONS

Sanctions

Sanctions include emergency actions, fines, limitations, suspensions, and terminations (see descriptions on next page). The Department may initiate actions against any school that:

- violates the law or regulations governing the FSA programs, its Program Participation Agreement, or any agreement made under the law or regulations; or
- substantially misrepresents the nature of its educational programs, its financial charges, or its graduates' employability. For details on misrepresentation, see *Volume 1, Chapter 4*.

In addition, the Department has the authority to terminate a school or program that no longer meets the eligibility criteria in *Volume 1, Chapter 1*.

Access to records
Access includes the right to copy records (including computer records), to examine computer programs and data, and to interview employees without the presence of management or the presence of the school's or a servicer's tape recorder.

34 CFR 668.24(f)

Similarly, the Department may also sanction a third-party servicer that performs functions related to the FSA programs. Further, the Department has the authority to sanction a group of schools or servicers if it finds that a person or entity with substantial control over all schools or servicers within the group has violated any of the FSA program requirements or has been suspended or debarred from program participation.

Appealing audit and program review determinations
The law allows for appeals of final audit or program review determinations. Note that only a final determination may be appealed. The letter conveying a final audit determination is clearly identified as a Final Audit Determination Letter and explains the appeals procedures. For a program review, the final determination letter is identified as a Final Program Review Determination Letter.
34 CFR Part 668 Subpart H

Criminal penalties

The law provides that any person who knowingly and willfully embezzles; misapplies; steals; obtains by fraud, false statement, or forgery; or fails to refund any funds, assets, or property provided or insured under Title IV of the Higher Education Act; or attempts to commit any of these crimes will be fined up to $20,000 or imprisoned for up to five years, or both. If the amount of funds involved in the crime is $200 or less, the penalties are fines up to $5,000 or imprisonment up to one year, or both.

School Participation Team contacts
You can locate the School Participation Team for your region by going to the "Help" menu on the IFAP website and choosing Contact Information > Federal Student Aid Offices.

Any person who knowingly and willfully makes false statements, furnishes false information, or conceals material information in connection with the assignment of an FSA program loan or attempts to do so, will, upon conviction, be fined up to $10,000 or imprisoned for up to one year, or both. This penalty also applies to any person who knowingly and willfully

- makes, or attempts to make, an unlawful payment to an eligible lender of loans as an inducement to make, or to acquire by assignment, a loan insured under such part.
- destroys or conceals, or attempts to destroy or conceal, any record relating to the provision of FSA program assistance with intent to defraud the United States or to prevent the United States from enforcing any right obtained by subrogation under this part.

Accrediting Agency Role

The goal of accreditation is to ensure that the education provided by postsecondary educational institutions meets an acceptable level of quality. The Department recognizes agencies that meet established criteria, and such recognition is a sign that an agency has been determined to be a reliable authority on the quality of the institutions or programs the agency accredits.

An accrediting agency can be recognized by the Department for institutional or programmatic accreditation. An institutional accreditation agency accredits an entire institution. A programmatic accrediting agency accredits specific educational programs, departments, or schools within an institution.

An agency must have standards that effectively address the quality of a school or program in the following areas:

- success with respect to student achievement in relation to mission, including, as appropriate, consideration of course completion, state licensing examination, and job placement rates;
- curricula;
- faculty;
- facilities, equipment, and supplies;
- fiscal and administrative capacity as appropriate to the specific scale of operations;
- student support services;
- recruiting and admissions practices, academic calendars, catalogs, publications, grading, and advertising;
- measures of program length and the objectives of the degrees or credentials offered;
- record of student complaints received by, or available to, the agency;
- record of compliance with the school's FSA program responsibilities, based on items such as default rate data and the results of compliance audits and program reviews and any other information that the Department may provide to the agency; and
- any additional accreditation standards the accrediting agency deems appropriate.

There are many additional statutory requirements a national accrediting agency must meet to qualify for recognition. For example, an accreditation agency must:

- consistently apply and enforce standards for accreditation that ensure that the education or training offered by an institution or program, including any offered through correspondence or telecommunications, is of sufficient quality to achieve its stated objectives for the duration of the school's accreditation period;
- perform, at regularly established intervals, on-site inspections and reviews of institutions of higher education (that may include unannounced site visits) with particular focus on educational quality and program effectiveness;
- agree to submit any dispute involving the final denial, withdrawal, or termination of accreditation to initial arbitration prior to any other legal action; and
- if it is an institutional accrediting agency, maintain adequate substantive change policies that ensure that any substantive change to the educational mission, program, or programs of an institution after an agency has accredited or preaccredited the institution does not adversely affect the capacity of the institution to continue meeting the agency's standards.

Information and a complete list of agencies recognized by the Department can be found at **www.ed.gov/admins/finaid/accred/index.html**

Department's recognition of accrediting agencies
Sec. 496 of the HEA
20 USC 1099b
34 CFR 602

Regulations on corrective actions & sanctions
For details on steps that a school should follow in any of these situations, see Subpart G of the general provisions regulations and Section 600.41 of the institutional eligibility regulations.

Actions due to program violations or misrepresentation
If a school has violated the FSA program regulations, the Department may (at its sole discretion) allow the school to respond to the problem and indicate how it will correct it. However, if the school has repeatedly violated the law or regulations, or the Department has determined that the violations are egregious, the Department may take an emergency action, fine the school, or initiate a limitation, suspension, or termination of FSA program participation.

Criminal penalties
HEA Sec. 490

WHEN FSA PARTICIPATION ENDS

A school may stop participating in the FSA programs voluntarily or may be required to leave involuntarily, as described below. In either situation, it must follow the closeout procedures specified in the FSA regulations.

Involuntary withdrawal from FSA participation

A school's participation ends in the following circumstances:

- the school closes or stops providing instruction for a reason other than normal vacation periods or as a result of a natural disaster that directly affects the school or its students (see details on page 37);
- the school loses its accreditation (see details on page 37);
- the school loses its state licensure;
- the school loses its eligibility (see details on page 37);
- the school's Program Participation Agreement (PPA) expires;
- the school's participation is terminated under Subpart G;
- the school's provisional certification is revoked by the Department;
- the school's cohort default rate exceeds allowable limits; or
- the school files a petition for bankruptcy or the school, its owner, or its CEO is responsible for a crime involving FSA funds.

Closeout procedures when participation ends

In general, a school that ceases to be eligible must notify its School Participation Team within 30 days of its loss of eligibility to participate in the FSA programs.

The school must also comply with the following minimum requirements:

- Within 45 days of the effective ending date of participation, submit to the Department all financial reports, performance reports, and other reports, as well as a dated letter of engagement for an audit by an independent certified public accountant of all FSA program funds received. The completed audit report must be submitted to the Department within 45 days after the date of the letter of engagement.
- Report to the Department on the arrangements for retaining and storing (for the remainder of the appropriate retention period described in *Volume 1*, *Chapter 5*) all records concerning the school's management of the appropriate FSA programs.

Corrective Actions & Sanctions

Emergency action
The Department may take an emergency action to withhold FSA program funds from a school or its students if the Department receives information, determined by a Department official to be reliable, that the school is violating applicable laws, regulations, special arrangements, agreements, or limitations. To take an emergency action, the Department official must determine that:

- The school is misusing federal funds.
- Immediate action is necessary to stop this misuse.
- The potential loss outweighs the importance of using established procedures for limitation, suspension, and termination.

The school is notified by registered mail (or other expeditious means) of the emergency action and the reasons for it. The action becomes effective on the date the notice is mailed.

An emergency action suspends the school's participation in all FSA programs and prohibits the school from disbursing FSA program funds or certifying FFEL applications. The action may not last more than 30 days unless a limitation, suspension, or termination proceeding is initiated during that period. In that case, the emergency action is extended until the proceeding, including any appeal, is concluded. The school is given an opportunity to show-cause that the action is unwarranted.

Fine
The Department may fine a school up to $27,500 for each statutory or regulatory violation. In determining the amount of the fine, the Department considers the gravity of the offense, the nature of the violation, and the school's size. The school is notified by certified mail of the fine action, the amount of the fine, and the basis for the action. A school has 20 days from the date of mailing to submit a written request for a hearing or to submit written material indicating why the fine should not be imposed.

Limitation
Under a limitation, the Department imposes specific conditions or restrictions upon a school as it administers FSA program funds. As a result, the school is allowed to continue participating in the FSA programs. A limitation lasts for at least 12 months. If the school fails to abide by the limitation's conditions, a termination proceeding may be initiated.

Suspension
A suspension removes a school from participation in the FSA programs for a period not to exceed 60 days (unless a limitation or termination proceeding has been initiated or the Department and the school agree to an extension). A suspension action is used when a school can be expected to correct an FSA program violation in a short time.

Corrective action
As part of any fine, limitation, or suspension proceeding, the Department may require a school to take corrective action. This may include making payments to eligible students from its own funds or repaying illegally used funds to the Department. In addition, the Department may offset any funds to be repaid against any benefits or claims due the school.

Termination
A termination ends a school's participation in the FSA programs. A school that has violated the law or regulations governing the FSA programs, its PPA, or any other agreement made under FSA regulations and was terminated from participating in the FSA programs generally may not apply to be reinstated for at least 18 months.

Possibility of reinstatement
A school requesting reinstatement in the FSA programs must submit a fully completed E-App to the Department and demonstrate that it meets the standards in 34 CFR Part 668. As part of the reinstatement process, the school must show that it has corrected the violation(s) on which its termination was based, including repaying all funds (to the Department or to the eligible recipients) that were improperly received, disbursed, caused to be disbursed, or withheld. The Department may approve the request, deny the request, or approve the request subject to limitations (such as granting the school provisional certification). If the Department approves the reinstatement request, the school will receive a new ECAR and enter into a new PPA.

- Tell the Department how the school will provide for collecting any outstanding FSA loans held by the school.
- Refund students' unearned FSA funds. See *Volume 5, Chapter 5*.

In addition, a school that closes must refund to the federal government or, following written instructions from the Department, otherwise distribute any unexpended FSA funds it has received (minus its administrative cost allowance, if applicable).

Unpaid commitments

If a school's participation ends during a payment period, but the school continues to provide education in the formerly eligible program until the end of the payment or enrollment period, the school may use the FSA funds in its possession to

- satisfy unpaid Pell Grant or Campus-Based program commitments made to students for that payment period or for previously completed payment periods before the school's participation ended.
- use the FSA funds in its possession to satisfy unpaid Direct Loan commitments made to students for that period of enrollment before participation ended by delivering subsequent Direct Loan disbursements to the students or by crediting them to their accounts (if the first disbursement already was delivered or credited to the students' accounts before the school's participation ended).

Note that the school may request additional funds from the Department to meet these commitments.

Teach-out plan

A school must submit a teach-out plan to its accrediting agency if

- ED initiates an emergency action, or initiates the limitation, suspension, or termination of the school's participation in any FSA program;
- the school's accrediting agency acts to withdraw, terminate, or suspend the accreditation or preaccreditation.
- the school's state licensing or authorizing agency revokes the institution's license or legal authorization to provide an educational program.
- the school intends to close a location that provides 100% of at least one program.
- the school otherwise intends to cease operations.

End of FSA participation

School closes or stops providing instruction

If the school closes its main campus or stops providing instruction on its main campus, its loss of eligibility includes all its locations and programs.

If a school ceases to provide educational instruction in all FSA-eligible programs, the school should make arrangements for its students to complete their academic programs. If the school chooses to enter into a formal teach-out arrangement, the school should contact the appropriate School Participation Team for guidance.

School loses eligibility

A school loses its eligibility to participate in the FSA programs when it no longer meets the requirements of 34 CFR Part 600, certain requirements of Part 668, or when the Department terminates the school under Subpart G of the General Provisions.

Voluntary withdrawal from FSA participation

For any number of reasons, a school may voluntarily withdraw from participating in one or all of the FSA programs. For instance, a school might wish to withdraw from the Perkins Loan Program to work on lowering high student loan cohort default rates. To withdraw from one or all of the FSA programs, the school must notify the Department via the electronic application. For more information on these requirements and procedures, contact the appropriate School Participation Team.

A school that withdrew voluntarily (for instance, to lower its default rate) can request to participate again without the waiting period required for a school that was terminated from the program involuntarily or withdrew voluntarily while under a show-cause or suspension order.

Withdrawing from the FSA programs while under a termination order or other sanction—or to avoid being placed under them—is not considered a voluntary withdrawal.

School loses primary accreditation

When a school loses its institution-wide accreditation, the Department generally may not certify or recertify that school to participate in any FSA program for two years after the school has had its accreditation withdrawn, revoked, or otherwise terminated for cause or after a school has voluntarily withdrawn under a show-cause or suspension order. If a school wishes to be reinstated, it must submit a fully completed E-App to the Department.

The Department will not recertify a school that has lost its institution-wide accreditation in the previous two years unless the original accrediting agency rescinds its decision to terminate the school's accreditation. In addition, if a school voluntarily withdrew from accreditation during the last two years under a show-cause or suspension order, the Department will not recertify the school unless the original order is rescinded by the accrediting agency. Finally, a school may not be recertified on the basis of accreditation granted by a different accrediting agency during the two-year period.

There are two exceptions to the two-year rule:

1. If the Department determines that loss of institution-wide accreditation was due to the school's religious mission or affiliation, the school can remain certified for up to 18 months while it obtains alternative accreditation.
2. If a school's institution-wide accrediting agency loses its Department recognition, the school has up to 18 months to obtain new accreditation.

Note that it is possible for accreditation to be withdrawn from one of the programs at a school without affecting the accreditation (and eligibility) of other programs at the school.

Closure of a branch or location

A separate closeout audit is not required if a school closes an additional location or a branch campus because the next due compliance audit for the school must report on the use of FSA program funds at the closed location. However, the school must notify the Department of the additional location or branch closure. See the *Federal Student Aid Handbook, Volume 2, Chapter 5* for information on reporting information to the Department.

Loss of eligibility or withdrawal from the Direct Loan Program

If a school is notified that it has lost its eligibility to participate in the Direct Loan Program and the school does not intend to appeal the decision, it must immediately inform all current and prospective students of its loss of eligibility. The school must also explain that it can no longer originate Direct Loans for students or parents. If the school appeals its loss of eligibility within the required time frame, the school may continue originating Direct Loans during the appeal process. Once a final decision on the appeal is made, the school must take the actions described in the Department's final appeal determination letter.

If a school plans to withdraw from participation in the Direct Loan Program, it must notify the Department of its decision in writing. Once the effective date of withdrawal has been established, the school is prohibited from disbursing loan funds to the student. However, if your school made a first disbursement to the student before it lost eligibility, it may still be able to make a subsequent disbursement to that student. See the conditions in 34 CFR 668.26(d).

QUALITY ASSURANCE PROGRAM

Under the Quality Assurance (QA) Program, participating schools design and establish a comprehensive quality improvement program to increase award accuracy and strengthen their administration of the FSA programs. The mission of the program is to help schools deliver exceptional student aid service.

Schools participating in the QA Program are exempt from certain verification requirements. In exchange, they must develop a school-specific verification program based on data gathered and analyzed from QA Program activities. FSA provides a Web-based software application, the ISIR Analysis Tool (described on the following pages), to help schools analyze how well their verification procedures are working. All schools can benefit from using this software tool; however, only schools participating in the QA Program receive the verification flexibility.

Applying to join the QA Program
Schools that are interested in becoming a QA Program participant should contact the QA staff. Contact information is available at: **http://quality.assurance@ed.gov**.

Experimental Sites contact
For further information on the Experimental Sites Initiative, please write the Experimental Sites Team at **ExperimentalSites@ed.gov**.

Statutory authority
Quality Assurance Program
Sec. 487A(a) of the HEA
20 U.S.C. 1094a(a)
Experimental Sites Initiative
Sec. 487A(b) of the HEA
20 U.S.C. 1094a(b)

Approved Areas of Experimentation
Experiments involving the following requirements resulted in legislative change:
- Thirty-Day Delay (HERA 2006)
- Multiple Disbursement (HERA 2006)
- Ability-to-Benefit (HEOA 2008)

EXPERIMENTAL SITES INITIATIVE

If a school believes that it has a better way to administer aspects of the FSA programs than the methods required by statute or regulation, it may apply to be an experimental site. This partnership between the Department and schools encourages them to develop and test alternative approaches to streamline procedures and processes, eliminate delays, and remove administrative barriers for students and staff. Schools participating in this initiative are required to report specific performance data to ED annually on the progress of the experiments.

The Higher Education Opportunity Act continued the authority for the Experimental Sites Initiative. The Department plans to publish a notice in the *Federal Register* inviting ideas for new experiments, and we encourage all schools to consider submitting proposals after the notice is published. In the notice, schools will be asked to design and implement rigorous experiments that include, as appropriate, control and experimental groups to test and measure the alternative interventions. These groups may be within a single school or from one or more other schools. We will also strongly encourage schools to establish consortia of different types of schools that would test the impact of an experiment on as wide a cross-section of the community as possible.

The FSA Assessments currently available are

- Student Eligibility
- Satisfactory Academic Progress
- FSA Verification
- Institutional Eligibility
- Default Prevention & Management
- Consumer Information
- Fiscal Management
- Return of Title IV Funds
- Perkins Due Diligence
- Perkins Repayment
- Perkins Cancellation
- Perkins Awarding & Disbursement
- Perkins Forbearance & Deferment
- Federal Work-Study
- FSEOG
- Automation
- Policies and Procedures

FSA Assessments

The FSA Assessments are intended to help all schools examine and improve operations. The assessments can help you

1. Anticipate and address problems;
2. Spot-check the systems you are using to manage information;
3. Prepare for your audit or other review;
4. Maximize the efficiency of your staff in handling their duties; and
5. Revise your approaches according to your campus needs, and do so continually.

To enhance their effectiveness, the FSA Assessments include activities to test compliance and procedures. They also are linked to the latest regulations, the *Blue Book*, Dear Colleague Letters, Federal Registers, and other related documents. Downloadable Microsoft Word documents include the hyperlinks as well.

The policies and procedures assessment is a new addition to the FSA Assessments. It helps schools create new policies and procedures, or cross-reference with documents that include policies and procedures. FSA Assessments can be found under "Tools for Schools" on the IFAP site (**www.ifap.ed.gov**). At the end of each assessment you will find links to management enhancements (for dealing with areas that need improvement) and policies and procedures (for developing new or evaluating existing policies and procedures).

ISIR ANALYSIS TOOL

The ISIR Analysis Tool is a Web-based application that analyzes FAFSA data reported on the ISIR. A school uses the information to fine tune its own institutional verification procedures.

The ISIR Analysis Tool compares initial and paid-on ISIR transactions to determine if changes in student reported information had an impact on EFC and Pell eligibility. Users upload initial and paid-on records from FSA's ISIR Datamart into a database in the ISIR Analysis Tool. Users can construct queries, develop custom formats, and field increments to obtain data from the tool that can help identify problematic areas, zeroing in on specific EFC ranges, data elements, and populations. This data can help a school customize its verification procedures and consumer information provided to students and parents. In addition, the data can identify sections of the FAFSA that may be most confusing to applicants and their families. Such information can help FSA improve verification selection criteria through the Central Processing System.

The ISIR Analysis Tool provides a full complement of report and analytical capabilities utilizing state-of-the-art Web technology. The reports generated from the ISIR records can help a school identify groups of students for whom CPS edits are missing and develop discretionary verification procedures that focus on students making changes that affect the EFC and Pell eligibility.

To use the ISIR Analysis Tool, your school must enroll in FAA Access to CPS Online. For more information, please refer to: **www.fsawebenroll.ed.gov**.

For additional guidance about using the ISIR Analysis Tool, a school should use the resources available at: **www.ifap.ed.gov/qahome/guidance.html**.

Accounting Systems, Requirements, and Procedures

CHAPTER 3

This chapter is a general guide; it is not intended to replace accounting standards established by the American Institute of Certified Public Accountants (AICPA), Financial Accounting Standards Board (FASB), Governmental Accounting Standards Board (GASB), or the concept of generally accepted accounting principles (GAAP).

Requirements for Accounting and Internal Controls Systems at Schools Participating in the Title IV, Federal Student Assistance Programs

Participating schools must account for the receipt and expenditure of Title IV, HEA program funds in accordance with generally accepted accounting principles.

Schools must establish and maintain on a current basis —

1. **Financial records that reflect each HEA, Title IV program transaction; and**
2. **General ledger control accounts and related subsidiary accounts that identify each Title IV, HEA program transaction and separate those transactions from all other institutional financial activity.**
3. **Accounting and internal controls system that:**
   - **Identify the cash balance of the funds of each Title IV, HEA program that are included in the institution's bank or investment account as readily as if those program funds were maintained in a separate account; and**
   - **Identify the earnings on Title IV, HEA program funds maintained in the institution's bank or investment account.**

34 CFR 668.24(b)(2) & 34 CFR 668.163(d)

The Department does not specify the type of system a school must use. However, the accounting and internal control system must be able to provide individuals examining the financial records of a school's participation in the federal student aid programs with the type of information described below.

A school's chart of accounts must identify all general ledger and subsidiary ledger accounts relevant to the federal student aid programs. In addition, a school's accounts, journals, and records must follow federal cash from the moment the funds are drawn through G5 to when funds are disbursed to students, including when cash is:

- deposited into institutional bank accounts;
- transferred between bank accounts;
- posted to general and subsidiary ledgers;
- posted to the individual student account ledgers; and
- if applicable, disbursed directly to students

Note: An institution is not required to have a specific or minimum number of bank accounts. However, an institution's general and subsidiary ledgers must clearly identify the amount of Title IV, HEA funds, by program, in each account, including interest payments attributable to certain programs, such that a clear audit trail exists.

ACCOUNTING RECORDS

An effective institutional financial aid program requires a cooperative effort among all school offices involved in delivering financial aid to students. Separate reporting and recordkeeping responsibilities required of each office, as well as shared responsibilities, are detailed in the ***Federal Student Aid Handbook, Volume 2***.

The business office is responsible for most financial accounting and recordkeeping (except for the detailed records and files on individual financial aid recipients that must be kept in the financial aid office). The remainder of this chapter is designed to help the business office satisfy its accounting responsibilities efficiently and with a minimum of effort.

Bookkeeping and recordkeeping

Bookkeeping and recordkeeping systems should be designed to

- enable timely internal and external financial reporting;
- meet documentation requirements;
- ensure proper filing of applications; and
- create accurate reports.

FUND ACCOUNTING SYSTEMS AND THE FSA PROGRAMS

A fund accounting system is required whenever an entity is responsible to a third party for ensuring that funds are used as intended by the third party. Such funds must be restricted for use in accordance with the third-party's requirements and separate fund accounts must be established for each third-party program from which the entity is receiving funds. Fund accounting is the method of segregating assets into categories according to the individual program requirements placed on their use by the third party.

Fund accounting contrasts with the more widely known system used in corporate accounting in one fundamental way—entities receiving third-party funds may not exceed their budgets. Additionally, the concepts of encumbrance and budgeting obligations found in fund accounting are not found in corporate accounting.

Fund accounting is characterized by the following:

- A fund is a separate accounting entity with a self-balancing set of accounts consisting of assets, liabilities, and fund balances.
- Separate accounts are maintained for each fund to ensure observance of limitations and restrictions placed on the use of the resources of each fund.
- For reporting purposes, funds with similar characteristics are combined into fund groups.
- Expenditures are recorded in each fund and measured against budgets, thereby providing finite limits within which funded entities within the school must operate in carrying out their mission.

When designing an accounting system, the chart of accounts, books of original entry, billing and reporting requirements, and other FSA requirements must all be considered.

For example, the numerous ledger accounts suggested in the chart of accounts that appears later in this chapter for the Perkins Loan Program were created to assist schools in preparing year-end reports that must be filed with the Department. The school can simply copy the information from its ledgers to the electronic FISAP format supplied by ED.

When designing a chart of accounts, institutions also need to consider their fund-accounting needs, particularly with respect to restricted funds or funds that are initially restricted. The chart of accounts should accurately reflect the school's current organization and programs, and it should have the flexibility to accommodate any future changes in the organization.

Audit trails

Your accounting records and systems for FSA funds must provide a *clear audit trail* that makes it possible to trace all federal cash from drawdown to its final destination

An audit trail, whether in a manual system, an automated system, or a combination of systems, includes the accounting record of a transaction and all the documentation that supports each transaction.

In accounting records, when data is recorded, a reference should also be recorded to identify the source of the data. The reference can be in the form of a date, a name, an address, or a number such as a journal page number, ledger account number, or check number. These references, used throughout the accounting cycle, form an *audit trail* that makes it possible to trace the details of a transaction from the source document to the financial statements and accounting records.

A vital part of an audit trail is *cross-referencing*. Cross-referencing is the recording of identifying numbers pointing both ways in offsetting or supporting accounting entries. For example, in your FSEOG cash account, for a deposit received from G5, you would record an entry that pointed to the journal page on which you recorded the names of students for whom this particular cash draw was intended to provide the federal share. Likewise, on the aforementioned journal page, you would record an identifier that pointed to the appropriate draw in your FSEOG cash account.

Chart of Accounts

As an aid in discussing records and accounting techniques for financial aid programs, the following Summary Chart Of Accounts lists accounts considered necessary for institutions to account properly for FSA program funds. These accounts may be set up in either a manual or automated accounting system. Either system will need the basic suggested ledger accounts to meet the Department's minimum program and fiscal requirements, as well as the institution's external reporting requirements, such as basic financial statements and fund statements. Such a system will serve to meet the accounting needs of the school, the Department, and other federal agencies. Additional accounts may be added as deemed necessary by the school. These accounts should be reviewed at least annually to determine if additions or deletions are necessary to meet changes in federal regulations.

The chart of accounts is a primary internal-control mechanism delineating the framework of the accounts. This chart has two components: (1) a fund number and (2) an account number that usually follows a standard account-code structure (a definition, by name, of the account code). A uniform numbering scheme is used here to assist in identifying the parts of the financial statements on which ledger accounts are located. The numbers assigned to these ledger accounts are arbitrarily assigned, but in sequential order, and these specific numbers are not required to put these ledgers in place in institutional accounting systems.

In all cases, the first digit of an account number identifies an element of the financial statements, as follows:

1 - Asset Account

2 - Asset Reduction Account

3 - Liability Account

4 - Capital Account (or Program Balance)

5 - Capital Reduction Account

6 - Income Account (or Revenue Account)

7 - Expense Account

The accounting record for each federal student aid program is self-balancing, and must be separated completely from the accounting records of all other federal student aid programs and from the accounting record for the general operating fund of the school. Within each program, the sum of ledger accounts with debit balances equals the sum of ledger accounts with credit balances.

In the following Summary Chart Of Accounts, award authorizations are not shown. It is recommended that they be booked as a memo journal entry or budget item. Then, as award authorizations are adjusted, appropriate adjustments to budget figures would be entered. This process helps ensure that drawdown amounts do not exceed authorization levels.

Note: The G5 account shown in the Summary Chart of Accounts, account # 1-2 (Accounts Receivable, G5) is used only if a school does not use the reimbursement payment method for drawing down FSA funds. The accounting for the reimbursement method will not be covered here. However, account # 1-2 should be booked as any other account receivable. Each respective subsidiary ledger would also book the receivable.

Reconciling subsidiary records to account balances

All accounts should be backed up by subsidiary ledger detail. Although a trial balance can be used to ensure that accounts balance in the aggregate, it does not guarantee that there is sufficient evidence that subsidiary records exist to support the totals in each account.

Errors can occur when corrections or changes are made to control accounts without corresponding adjustments being made to subsidiary records. Reconciliations between accounts and subsidiary record detail should be performed at least monthly and should be conducted on a more frequent basis during periods of high transaction volume. As mentioned earlier, most FSA programs require monthly reconciliations.

Business officers can access these regulations through IFAP by following these instructions.

Step 1 – go to ifap.ed.gov
Step 2 – at the bottom right of the web page find the section labeled Laws & Regulations
Step 3 – select Code of Federal Regulations (GPO Compilation)
Step 4 – follow through and select "continue" to access the Electronic Code of Federal Regulations (e-CFR) for Title 34 Education.

Student Assistance General Provisions
34 CFR 668.16, 668.24, 668.171, 668.173, 668.175
Cash Management
34 CFR 668.161-166
Maintaining and Accounting for Funds
34 CFR 668.163
Refund Reserve Standards
34 CFR 668.173
Administrative Cost Allowance for the Federal Perkins Loan Program, Federal Work Study Program, and FSEOG program
34 CFR 673.7
Federal Perkins Loan (program participation agreement)
34 CFR 674.8(b)
Federal Perkins Loan (fiscal procedures and records)
34 CFR 674.19
Federal Work-Study (program participation agreement)
34 CFR 675.8
Federal Work-Study (use of funds)
34 CFR 675.18
Federal Work-Study Program (fiscal procedures and records)
34 CFR 675.19
FSEOG (program participation agreement)
34 CFR 676.8
FSEOG (use of funds)
34 CFR 676.18
FSEOG (fiscal procedures and records)
34 CFR 676.19
Return of Title IV Funds
34 CFR 668.22
Administrative Cost Allowance
34 CFR 690.10(b) and 34 CFR 673.7
Direct Loan Program
34 CFR 685
TEACH Grant Program
34 CFR 686
Pell Grant Program
34 CFR 690

Examples of Information a School's Accounting System Must Be Able to Provide

- Documentation that for any drawdown of federal cash the funds were deposited in account in which the funds were clearly identified as ***federal***.
- Documentation, if applicable, that for any drawdown the funds were transferred to the appropriate subsidiary ledgers, or if, intended for students, posted to the students' accounts within the three days permitted.
- Documentation that if the posting of federal cash to a student account created an FSA credit balance that the funds were made available to the student with the 14 days allowed by regulation (see *Volume 5* for a discussion of FSA credit balances).
- If the school holds FSA credit balances for students, documentation that there is a ledger that identifies all such credit balances and that there is sufficient cash in the school's bank account to cover all such credit balances.
- Documentation that for each Return of Title IV Funds required under 34 CFR 668.22, within the time frame allowed by regulation, cash has been transferred from the student's account to the school's federal funds account and then has either been returned to the Department or reallocated and disbursed to other eligible students.
- Through its accounting system a clear audit trail to account for all Title IV, HEA funds throughout the cash management cycle.
- For the Campus-Based Programs documentation that all nonfederal matching funds (when the matches are made with cash) were deposited before or at the same time that federal funds were received.
- For the Federal Work-Study Program, for schools without a waiver or exception, documentation that the school expended at least 7% of its FWS allocation in making payments to students employed in community service jobs for the year.
- For the Federal Supplemental Opportunity Grant Program, documentation that the awards made to students equal the federal share, plus the institutional share minus any ACA taken by the school, plus or minus any funds transferred or carried forward/back.

Examples of Information a School's Accounting System Must Be Able to Provide

- For the Federal Work-Study Program, documentation that the total gross compensation paid to students reported on the school's Fiscal Operations Report is supported by the school's payroll records including accounting records of any amount paid to students in noncash institutional matching.
- For a school receiving funds through the Heightened Cash Management 2 (HCM2) or Reimbursement Payment (Funding Controls) Methods, documentation that before submitting a request for federal cash for a student, the school made the disbursement(s) with its own funds to the student's account and identified the disbursement(s) appropriately (e.g., as a Federal Pell Grant).
- For a school receiving funds through the HCM2 or Reimbursement Payment Methods, documentation that if disbursing its own funds (labeled Title IV funds) to a student's account created a Title IV Credit Balance, that the school made that credit balance available to the student within the 14 days required by regulation.
- For any student who receives Title IV funds, a student subsidiary account /student ledger that clearly identifies the date and amount of each transaction, and the balance after each.
- Subsidiary financial aid ledgers that are year specific (though federal funds from different award years may be maintained in the same bank account).

Student subsidiary accounts/ student ledgers

The Department considers student subsidiary accounts, also known as student ledgers, part of a school's accounting system. Student ledgers and subsidiary accounts must follow the same rules as other sub accounts.

Summary Chart of Accounts

G5 Accounts (FSA Funds Only, Not Including Direct Loans)

*** G5 is the only case in which income and expense ledgers are not maintained.**

To help in calculating excess cash and interest earnings on FSA funds (Federal Pell Grant, FSEOG, FWS, and Federal Perkins Programs) and, in accordance with cash management regulations issued on December 1, 1994, separate G5 accounts should be established for FSA funds and for non-FSA funds.

1 - Asset Accounts

1 - 1 Cash Control, G5

1 - 2 Accounts Receivable, G5

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts - None*

7 - Expense Accounts - None*

National Finance Center (NFC) Accounts

NFC accounts are needed to reflect amounts of FSA program funds disallowed after the program authorization account has been closed (removed from G5).

1 - Asset Accounts

1 - 1 Cash Unremitted to NFC

1 - 2 Due from School

3 - Liability Accounts

3 – 1 Accounts Payable, NFC

4 - Capital Accounts - None

6 - Income Accounts - None

7 - Expense Accounts - None

Federal Pell Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Federal Pell Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Federal Pell Grants for Students

6 - 2 Federal Reimbursement of Pell Grant Administrative Cost Allowance (ACA)

7 - Expense Accounts

7 - 1 Student Grants Paid - Federal Pell Grant

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution

Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts

1 - Asset Accounts

1 - 1 Cash, FSEOG

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts

6 - 1 Transfer from G5 - FSEOG

6 - 2 Institution’s Cash Contribution

6 - 3 Institution’s Noncash Contribution (Memo Account)

7 - Expense Accounts

7 - 1 Student Grants Paid - FSEOG

7 - 2 Student Grants - FSEOG from Noncash Contribution (Memo Account)

7 - 3 Administrative Cost Allowance (ACA) Paid to Institution (if applicable)

Federal Work-Study (FWS) Accounts

1 - Asset Accounts

- 1 - 1 Cash, Federal Work-Study
- 1 - 2 Accounts Receivable, Off-Campus Entities

3 - Liability Accounts

- 3 - 1 Federal Income Taxes Withheld
- 3 - 2 Social Security Taxes Withheld
- 3 - 3 State Income Taxes Withheld
- 3 - 4 Other Withholding
- 3 - 5 Accrued Wages Payable
- 3 - 6 Employer's Payroll Taxes Payable

4 - Capital Accounts - None

6 - Income Accounts

- 6 - 1 Transfer from G5 - Federal Work-Study
- 6 - 2 Institution's Cash Contribution
- 6 - 3 Institution's Noncash Contribution (Memo Account)
- 6 - 4 Off-Campus Employer's Contribution, Public/Private Nonprofit Entities
- 6 - 5 Off-Campus Employer's Contribution, Private For-Profit Entities

7 - Expense Accounts

- 7 - 1 Student Wages - On-Campus
- 7 - 2 Student Wages - On-Campus, Noncash Contribution for Nonfederal Share (Memo Account)
- 7 - 3 Student Wages - Off-Campus, Public/Private Nonprofit Entities
- 7 - 4 Student Wages - Off-Campus, Private For-Profit Entities
- 7 - 5 Regular Job Location and Development (JLD) Expenses Paid to Institution
- 7 - 6 Administrative Cost Allowance (ACA) Paid to Institution

Federal Perkins Loan Accounts

1 - Asset Accounts

- 1 - 1 Cash, Federal Perkins Loans
- 1 - 2 Funds Advanced to Students*

2 - Asset Reduction Accounts

- 2 - 1 Loan Principal Collected
- 2 - 2 Defaulted Loan Principal - Assigned to Federal Government
- 2 - 3 Loan Principal Canceled - Teaching Service (10% Rate), Loans Made Prior to 7/1/72
- 2 - 4 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made Prior to 7/1/72
- 2 - 5 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made Prior to 7/1/72
- 2 - 6 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made 7/1/72 and After
- 2 - 7 Loan Principal Canceled - Teaching Service (20% Rate), Loans Made 7/1/72 and After
- 2 - 8 Loan Principal Canceled - Teaching Service (30% Rate), Loans Made 7/1/72 and After
- 2 - 9 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (15% Rate), Loans Made 7/23/92 and After
- 2 - 10 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (20% Rate), Loans Made 7/23/92 and After
- 2 - 11 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (30% Rate), Loans Made 7/23/92 and After
- 2 - 12 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made 7/1/72 and After

***If the school tracks funds advanced to students who are out of school, this information may be placed as a footnote to the subsidiary ledger.**

2 - 13 Loan Principal Canceled - Death

2 - 14 Loan Principal Canceled - Disability

2 - 15 Loan Principal Canceled - Bankruptcy

2 - 16 Loan Principal Canceled - Peace Corps or VISTA (15% Rate)

2 - 17 Loan Principal Canceled - Peace Corps or VISTA (20% Rate)

2 - 18 Loan Principal Canceled - Head Start (15% Rate)

2 - 19 Loan Principal Canceled - Volunteer Service (15% Rate)

2 - 20 Loan Principal Canceled - Volunteer Service (20% Rate)

2 - 21 Loan Principal Canceled - Law Enforcement and Corrections Officer Service (15% Rate)

2 - 22 Loan Principal Canceled - Law Enforcement and Corrections Officer Service (20% Rate)

2 - 23 Loan Principal Canceled - Nurse/Medical Technician (15% Rate)

2 - 24 Loan Principal Canceled - Nurse/Medical Technician (20% Rate)

2 - 25 Loan Principal Canceled - Nurse/Medical Technician (30% Rate)

2 - 26 Loan Principal Canceled - Child/Family and Early Intervention Service (15% Rate)

2 - 27 Loan Principal Canceled - Child/Family and Early Intervention Service (20% Rate)

2 - 28 Loan Principal Canceled - Child/Family and Early Intervention Service (30% Rate)

2 - 29 Loan Principal Canceled for Loans Discharged Due to Closed Schools

2 - 30 Loan Principal Adjustments - Other

3 - Liability Accounts* - None

4 - Capital Accounts

4 - 1 Federal Fund Balance

4 - 2 Institutional Fund Balance

6 - Income Accounts

6 - 1 Funds Transferred from G5 - Perkins - FCC

6 - 2 Funds Transferred from Institution - Perkins - ICC

6 - 3 Interest Earned on Loans

6 - 4 Other Earnings - Late Charges on Loans Made 7/1/87 and After

6 - 5 Other Earnings - Miscellaneous

6 - 6 Reimbursement of Amounts Canceled on Loans Made 7/1/72 and After

6 - 7 Repayments to Federal Government

6 - 8 Repayments to Institution

7 - Expense Accounts

7 - 1 Litigation Expenses

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution

7 - 3 Other Collection Expenses

7 - 4 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made Prior to 7/1/72

7 - 5 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made 7/1/72 and After

7 - 6 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made Prior to 7/1/72

7 - 7 Cost of Loan Principal and Interest Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education), Loans Made 7/23/92 and After

7 - 8 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made 7/1/72 and After

7 - 9 Cost of Loan Principal and Interest Canceled - Death

7 - 10 Cost of Loan Principal and Interest Canceled - Disability

7 - 11 Cost of Loan Principal and Interest Canceled - Bankruptcy

7 - 12 Cost of Loan Principal and Interest Canceled - Peace Corps or VISTA

7 - 13 Cost of Loan Principal and Interest Canceled - Head Start

7 - 14 Cost of Loan Principal and Interest Canceled - Volunteer Service

7 - 15 Cost of Loan Principal and Interest Canceled - Law Enforcement and Corrections Officer Service

7 - 16 Cost of Loan Principal and Interest Canceled - Nurse/Medical Technician

7 - 17 Cost of Loan Principal and Interest Canceled - Child/Family and Early Intervention Service

7 - 18 Cost of Defaulted Loan Principal and Interest Assigned to Federal Government

7 - 19 Other Costs or Losses

William D. Ford Federal Direct Loan (Direct Loan) Accounts

1 - Asset Accounts

1 - 1 Cash, Direct Loans

1 - 2 Accounts Receivable, G5

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Income Accounts

6 - 1 Income from G5 - Direct Loans

7 - Expense Accounts

7 - 1 Funds Advanced to Borrowers

Federal TEACH Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Federal TEACH Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Federal TEACH Grants for Students

7 - Expense Accounts

7 - 1 Student Grants Paid - Federal TEACH Grant

Iraq Afghanistan Service Grant Accounts

1 - Asset Accounts

1 - 1 Cash, Iraq and Afghanistan Service Grants

3 - Liability Accounts - None

4 - Capital Accounts - None

6 - Revenue Accounts

6 - 1 Transfer from G5 - Iraq and Afghanistan Service Grants for Students

7 - Expense Accounts

7 - 1 Student Grants Paid - Iraq and Afghanistan Service Grants

1. *A different accounting treatment is needed if a school has been placed on the reimbursement payment method for drawing down FSA funds.

G5 FSA Accounts

1 - 1 Cash Control, G5: This account may be a debit or credit balance account depending on the timing of drawdowns and disbursements. It is established to identify the balance of federal cash disbursed to a school through G5. The system described here segregates federal cash by using separate accounts for G5 FSA-funded programs. These separate G5 accounts allow reconciliation of funds sent and/or available through G5. Separate checking accounts need not be maintained for each program as long as school records indicate precisely where cash was used.

Debit this account for:

- All cash received from G5 for all FSA programs, except Pell Grant ACA reimbursement or Perkins Loan cancellation reimbursements (contra account # 1-2).
- All unexpended cash on programs when accountability has been transferred to NFC (contra account # 1-2).

Credit this account with:

- All cash transferred to programs.
- Excess cash billings paid to National Finance Center (NFC) (contra account # 1-2).

1 - 2 Accounts Receivable, G5: This account can be a debit or credit balance account depending on the timing of disbursements and drawdowns. It represents all amounts due from all open-status G5-funded programs.[1] The debit balance may exist between the time funds are requested from G5 and the time they are received.

Debit this account for:

- Amount of awards disbursed to students and recorded as income transferred from G5 in each respective FSA program account.

Credit this account for:

- Cash received from G5 (contra account # 1-1).
- Any unexpended program balances after accountability has been transferred to NFC (contra account # 1-1)

1. A different accounting treatment is needed if a school has been placed on the reimbursement payment method for drawing down FSA funds.

National Finance Center (NFC) Accounts

1 - 1 Cash Unremitted to NFC: This account is used to reflect that a portion of cash is no longer under G5 accountability; the accountability has been transferred to the National Finance Center (NFC).

This cash is segregated when a grant's final closing amount is in dispute. Accounting for the funds here reflects a transfer of accountability from G5. If more than one program is in dispute, separate subsidiary accounts should be set up for each program. Disallowed expenditures on open, current-year G5 accounts are recorded by reclassifying those expenditures from the specific program account to institutional accounts and then reinstating that same amount from the FSA program account to the G5 account.

Debit this account for:

- Cash received from the school for disallowed expenditure (contra account # 1-2).
- Interest earnings on FSA funds that exceed the regulatory threshold (contra account # 3-1).

Credit this account with:

- Amounts remitted to NFC (contra account # 3-1).

1 - 2 Due from School: This debit balance account reflects amounts due from the school as a result of disallowed expenditures on closed accounts not under G5 accountability.

Debit this account for:

- Billings from NFC for expenditures disallowed by program review or audit, excess cash, and the like (contra account # 3-1).

Credit this account for:

- Cash received from the school (contra account # 1-1).

3 - 1 Accounts Payable, NFC: This account is normally a credit balance account that reflects any liabilities to NFC as a result of cash accountability separated from G5 as described earlier or disallowed expenditures on programs not under G5 accountability or excess interest earnings returnable to ED through NFC.

Debit this account for:

- Amounts remitted to NFC (contra account # 1-1).

Credit this account with:

- Billings from NFC (contra account # 1-2).
- Interest earnings returnable to NFC (contra account # 1-1).

Federal Pell Grant Accounts

1 - 1 Cash, Federal Pell Grants: All receipts and disbursements of cash related to the Pell Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6-1).
- Recoveries from recipients (contra account # 7-1).

Credit this account with:

- Payments to students (contra account # 7-1).

6 - 1 Transfer from G5 - Federal Pell Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the Pell Grant account "Cash, Federal Pell Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7-1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1-1).

6 - 2 Federal Reimbursement of Pell Grant Administrative Cost Allowance (ACA): This credit balance account is used to deposit the reimbursements received by electronic funds transfer (EFT) from ED for Pell ACA.

Debit this account for:

- Closing entry at end of accounting fiscal year for the amount of Pell ACA reimbursements (contra account # 7-2).

Credit this account with:

- ACA payments received via EFT from ED (contra account # 1-1).

7 - 1 Student Grants Paid - Federal Pell Grant: This debit balance account is maintained to record payments made to students for Pell Grants.

Debit this account for:

- Grant payments made to students (contra account # 1-1).

Credit this account with:

- Recoveries from recipients (contra account # 1-1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6-1).

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution: This debit balance account is maintained to record payments made to the school for administrative costs. This amount cannot exceed the amount set by regulations.

Debit this account for:

- ACA paid to the school (contra account # 1-1).

Credit this account with:

- Closing entry at the end of the accounting period (contra account # 6-2).

ACCOUNT DETAILS

Federal Supplemental Educational Opportunity Grant (FSEOG) Accounts

1 - 1 Cash, FSEOG: All receipts and disbursements of cash related to the Federal Supplemental Educational Opportunity Grant (FSEOG) Program are recorded in this account. Typically, this account shows a zero balance after each period's entries are posted, as the transfer of funds from G5 should be only for the amount of grants to be paid to students immediately and for administrative expenses.

Debit this account for:

- Transfers from G5 account (contra account # 6-1).
- Cash contributions of the school (contra account # 6-2).

Credit this account with:

- Payments to students (contra account # 7-1).
- Payments to school for administrative cost allowance (contra account # 7-3).

6 - 1 Transfer from G5 - FSEOG: This revenue account is maintained to control the transfer of cash from the G5 account "Cash Control, G5" to the FSEOG account "Cash, FSEOG." Such transfers of cash should be made only in the precise amounts needed to pay awards and ACA (if applicable) on a current basis.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra accounts # 7-1, 7-3).

Credit this account with:

- Amounts of cash transferred from the G5 account to meet the federal share of current FSEOG grants (contra account # 1-1).

6 - 2 Institution's Cash Contribution: This credit balance account is maintained to record cash contributions made by the school to provide (together with any noncash contribution) the nonfederal share of FSEOG grants.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 7-1).

Credit this account with:

- Amounts of cash provided by the school to pay its share of current FSEOG grants (contra account # 1-1).

6 - 3 Institution's Noncash Contribution (Memo Account): This credit balance account is maintained to record noncash contributions made by the school to provide (together with any cash contribution) the required nonfederal share of FSEOG grants.

Debit this account for:

- Closing entry, the cash value of all tuition rebates or similar credits to student accounts as the nonfederal share of FSEOG awards at end of accounting fiscal year (contra account # 7-2).

Credit this account with:

- Noncash contributions provided from institutional resources to pay the nonfederal share of current FSEOG grants, including payments made directly to students from institutional funds (contra account # 7-2).

7 - 1 Student Grants Paid - FSEOG: This expense account is maintained to help prepare required FSEOG Program reports. If the school transfers cash to provide the required percent of the federal share, then this account would record both the federal and nonfederal shares of FSEOG grants. The debit balance in this account combined with account # 7-2, before closing, should agree with the sum of the individual award amounts shown in student records as FSEOG grants for the current year.

Debit this account for:

- Payments to students for FSEOG grants (contra account # 1-1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 6-1).

7 - 2 Student Grants - FSEOG From Noncash Contributions (Memo Account): This expense account is used if the school makes noncash contributions and pays students a portion of their FSEOG grants directly from institutional resources.

Debit this account for:

- Payments to students for FSEOG grants from institutional resources (contra account # 6-3).

Credit this account for:

- Closing entry at end of accounting fiscal year (contra account # 6-3).

7 - 3 Administrative Cost Allowance (ACA) Paid to Institution (if applicable): This expense account is used to record ACA as it is paid to the school. Such payments are limited by regulations and may not be made from FSEOG funds unless students received FSEOG funds during the period.

Debit this account for:

- Payments to school for administrative expenses (contra account # 1-1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 6-1).

Federal Work-Study (FWS) Accounts

1 - 1 Cash, Federal Work-Study: All receipts and disbursements of cash related to the Federal Work-Study (FWS) Program are recorded in this account. Any debit balance remaining after payroll payment should consist solely of institutional and/or off-campus employer funds, as federal funds should be transferred from the G5 Cash Control Account (G5 account # 1-1) only in the precise amount needed for the federal share of current disbursements.

Debit this account for:

- Federal contributions transferred from G5 account (contra account # 6-1).
- Cash contributions of the school (contra account # 6-2).
- Cash payments of off-campus employers (contra account # 1-2).
- Cash paid into fund by the school for later payment of employer's share of payroll taxes (contra account # 3-6).
- Cash contributions paid by the school for off-campus employers that have not paid their nonfederal share (contra account # 1-2).

Credit this account with:

- Federal share of on-campus compensation and federal and nonfederal shares of off-campus compensation to students (contra accounts # 3-5, 7-3, 7-4).
- Administrative expenses paid to the school (contra account # 7-6).
- Refund of contribution to the school (contra account # 6-2).
- Refund of contribution to off-campus employers (contra account # 1-2).

- Payment for compensation withheld (contra accounts # 3-1, 3-2, 3-3, 3-4).
- Payment of employer's payroll taxes (contra account # 3-6).
- Job Location and Development Program expenses paid to the school (contra account # 7-5).

1 - 2 Accounts Receivable, Off-Campus Entities: This account is used to record the amounts due from off-campus employers for the nonfederal share of student wages. Separate subsidiary accounts should be set up for each off-campus entity.

Debit this account for:

- Amounts to be provided by off-campus employers to pay the required percent of the nonfederal share of wages of students employed off campus (contra accounts # 6-4, 6-5).
- Refunds to off-campus employers of excess cash contributions (contra account # 1-1).

Credit this account for:

- Cash paid by off-campus employers (contra account # 1-1).
- Cash paid by the school for off-campus employers that have not paid their nonfederal share (contra account # 1-1).

3 - 1 Federal Income Taxes Withheld

3 - 2 Social Security Taxes Withheld*

3 - 3 State Income Taxes Withheld

3 - 4 Other Withholding

If withholding is necessary, these accounts are used to record the tax amounts withheld from the pay of students employed under the Federal Work-Study Program.

*Students working in FWS jobs do not need to pay FICA if they are employed on campus.

Debit these accounts for:

- Taxes paid to the appropriate agency for federal income taxes, Social Security taxes (when applicable), state income taxes, and other taxes (contra account # 1-1).

Credit these accounts with:

- Amounts withheld from students' pay for payment of federal income taxes, Social Security taxes (when applicable), state income taxes, and other taxes (contra accounts # 7-1, 7-3, and 7-4).

3 - 5 Accrued Wages Payable: This account is used to accumulate student wages earned but not paid by the end of a report period. This is necessary because the Federal Work-Study portion of the FISAP report requires compensation earned during the reporting period to be reported, regardless of when it is paid. The drawdown of cash from the G5 Cash Control Account is on a cash basis, and funds are not drawn down until accrued wages have actually been disbursed (paid).

Debit this account for:

- Amounts of gross compensation earned in the previous reporting period and paid during the current period (contra account # 1-1).

Credit this account with:

- Gross compensation earned, but not yet paid at the end of the reporting period (contra accounts # 7-1, 7-2, 7-3, 7-4).

3 - 6 Employer's Payroll Taxes Payable: This credit balance account is maintained to record the amount of payments due by the school for the employer's share of payroll taxes on accounts of students employed under the Federal Work-Study Program. Federal Work-Study funds may not be used to pay any portion of such taxes. At some schools, the employer's share of payroll taxes is handled directly from the general fund, and off-campus employers' payments for their share of payroll taxes are reimbursed to the general fund rather than transferring the amount into the FWS fund. In this case, account # 3-6 would not be needed in the FWS set of accounts.

Debit this account for:

- Amounts of payroll taxes paid (contra account # 1-1).

Credit this account with:

- Amounts of payroll taxes payable from cash amounts transferred by the school or off-campus employers to pay their share of payroll taxes (contra account # 1-1).*

6 - 1 Transfer from G5 - Federal Work-Study: This credit balance account controls the transfer of cash from the G5 account, "Cash Control, G5" to the FWS account, "Cash, Federal Work-Study." Such transfers of cash should be made only in the precise amounts needed for the federal share of current payroll, plus administrative expenses and Job Location and Development Program expenses. No transfer of cash should occur until the federal share of the currently payable payroll has been calculated.

Debit this account for:

- The federal share of wages earned (contra accounts # 7-1, 7-3, 7-4).
- Administrative expenses paid to the school (contra account # 7-6).
- Job Location and Development Program expenses paid to the school (contra account # 7-5).

Credit this account with:

- Amounts of cash transferred from the G5 account "Cash Control, G5" to meet current disbursement needs (contra account # 1-1).

6 - 2 Institution's Cash Contribution: This credit balance account is used only if the school transfers cash to provide the required percent of the nonfederal share of student wages on campus, then pays both the federal share and nonfederal shares of campus wages from these accounts.

Debit this account for:

- Refund to the school of excess cash advances (contra account # 1-1).
- Closing entry, the nonfederal share (that is, the share for which Federal Work-Study funds are not available) of cash wages paid to students employed on campus (contra account # 7-1).

Credit this account with:

- Amounts of cash provided by the school to pay its share of on-campus student wages (contra account # 1-1).

6 - 3 Institution's Noncash Contribution (Memo Account): This credit balance account records the amount of wages "paid" to students by the school through tuition rebates and other such noncash means, as well as amounts paid directly to students from institutional funds.

Debit this account for:

- Closing entry, the cash value of all tuition rebates or similar credits to student accounts made by the school during the reporting period as its share of on-campus student wages (contra account # 7-2).

Credit this account with:

- Each pay period, the cash value of all tuition rebates or similar credits to student accounts as its share of on-campus student wages (contra account # 7-2).

6 - 4 Off-Campus Employer's Contribution, Public/Private Nonprofit Entities

6 - 5 Off-Campus Employer's Contribution, Private For-Profit Entities

These credit balance accounts are maintained to record contributions due from off-campus employers to provide the required percent (or more) of the nonfederal share of student wages earned off campus.

Debit these accounts for:

- Closing entry, nonfederal share (that is, the share for which Federal Work-Study funds are not available) of wages paid to students employed off campus (contra accounts # 7-3, 7-4).

Credit these accounts with:

- Amounts to be provided by off-campus employers to pay the required percent of the nonfederal share of wages of students employed off campus (contra account # 1-2).

Note: A student may be exempt from tax withholding while enrolled. However, if the student is employed between terms or in the summer, when the student is not enrolled, withholding must be made.

7 - 1 Student Wages - On-Campus: This expense account is maintained to record the federal share of Federal Work-Study wages. If the school transfers cash to provide the required percent of the federal share, then this account would record both the federal and nonfederal shares of wages. This account may be further subdivided into categories such as instruction, research, public service, and so on, to facilitate nonfederal functional reporting.

Debit this account for:

- The federal share of wages earned by students in on-campus employment from the first day to the last day of the reporting period (posted from payroll vouchers, adjusted as necessary for accruals) (contra accounts # 1-1, 3-1, 3-2, 3-3, 3-4, 3-5).

Credit this account with:

- Closing entry for the federal share of wages earned on campus (contra account # 6-1).

7 - 2 Student Wages - On-Campus, Noncash Contribution for Nonfederal Share (Memo Account): This expense account is maintained to record the nonfederal share of student wages paid from the institution's tuition rebates or similar credits.

Debit this account for:

- The nonfederal share of wages "paid" to students through tuition rebates and other noncash means (contra account # 6-3).

Credit this account for:

- Closing entry for, the nonfederal share of wages earned on campus (contra account # 6-3).

7 - 3 Student Wages - Off-Campus, Public/Private Nonprofit Entities

7 - 4 Student Wages - Off-Campus, Private For-Profit Entities

These expense accounts are maintained to help prepare required Federal Work-Study Program reports.

Debit these accounts for:

- Gross amount of wages earned by students in off-campus employment from the first day to the last day of the reporting period (posted from payroll vouchers, adjusted as necessary for accruals) (contra accounts # 3-1, 3-2, 3-3, 3-4, and 3-5).

Credit these accounts with:

- Closing entry for the nonfederal share of wages earned off campus (contra accounts # 6-4, 6-5).

7 - 5 Regular Job Location and Development (JLD) Expenses Paid to Institution: This expense account is maintained to record payments made to the school for Job Location and Development (JLD) Program expenses. This amount cannot exceed the lesser of $50,000 or 10 percent of the institution's Federal Work-Study (FWS) authorization for the award year to locate and develop off-campus jobs, including community-service jobs. Jobs located or developed under the program may be for either a for-profit or nonprofit employer. A school is not allowed to use its JLD allocation to locate on-campus service jobs. The federal funds that a school sets aside from its FWS allocation to be used for JLD activities may be used to pay up to 80 percent of allowable costs. The school must provide the remaining 20 percent of allowable costs, either in cash or services.

Debit this account for:

- Amounts paid to the school (contra account # 1-1).

Credit this account with:

- Closing entry at the end of the accounting period, the amounts paid to the school during the reporting period (contra account # 6-1).

7 - 6 Administrative Cost Allowance (ACA) Paid to Institution: This expense account is maintained to record payments made to the school in reimbursement for administrative expenses. Such payments to the school have totals limited by regulations, and they may not be made from FWS funds unless students earned FWS wages during the award year.

Debit this account for:

- Payments to school for administrative expenses (contra account # 1-1).

Credit this account with:

- Closing entry at the end of the accounting period, the total amount paid to the school during the reporting period (contra account # 6-1).

Federal Perkins Loan Accounts

1 - 1 Cash, Federal Perkins Loans: This is a debit balance account that shows the total cash available.

Debit this account for:

- Federal Capital Contributions (FCCs) as transferred from G5 cash (contra account # 6-1).
- Institutional Capital Contributions (ICCs) as transferred from institutional cash (contra account # 6-2).
- Refunds of amounts advanced to students (contra account # 1-2).
- Collections of loan principal from borrowers (contra account # 2-1).
- Collections of loan interest from borrowers (contra account # 6-3).
- Collections of late charges assessed (contra account # 6-4).
- Collections of penalty charges assessed (contra account # 6-5).
- Other income (contra account # 6-5).
- Reimbursements from the U.S. government on loan cancellations (contra account # 6-6).
- Repayments from borrowers for litigation expenses (contra account # 7-1).
- Collections of borrower-paid collection costs from gross-remittance collection agencies (contra account # 7-3).

Credit this account with:

- Advances to students (contra account # 1-2).
- Overpayments refunded to borrowers (contra account # 2-1).
- Reversals of payments made by returned check (contra accounts # 2-1, 6-3, 6-4, 6-5, 7-3).
- Repayments of capital to the U.S. government (contra account # 6-7).
- Repayments of capital to the school (contra account # 6-8).
- Withdrawals of late charges payable to the school (contra account # 6-4).
- Withdrawals to pay litigation expenses (contra account # 7-1).
- Withdrawals for administrative cost allowance (contra account # 7-2).
- Withdrawals to pay collection costs to gross-remittance collection agencies (contra account # 7-3).
- Withdrawals to pay other collection expenses (contra account # 7-3).

1 - 2 Funds Advanced to Students: This debit balance account is a control account for advances to borrowers. The total of the amounts shown as advances on individual student master records for all students should be reconciled to the balance in this account at the end of each month.

Debit this account for:

- The amount advanced to borrowers (contra account # 1-1).

Credit this account with:

- Any return of advances made (contra account # 1-1).

2 - 1 Loan Principal Collected: This is a credit balance account maintained to show the total amount of loan principal collected since the beginning of the program.

Debit this account for:

- The principal amount of returned checks (contra account # 1-1).
- Overpayments refunded to borrowers (contra account # 1-1).

Credit this account with:

- The amount of cash collections related to loan principal (contra account # 1-1).
- Reclassification of the amount of interest paid that is subsequently canceled (contra account # 2-1).

2 - 2 Defaulted Loan Principal - Assigned to Federal Government: This credit balance account is maintained to show the cumulative amount of defaulted loan principal assigned to and accepted by the U.S. government.

Debit this account for:

- No entries, except for correcting errors.

Credit this account with:

- The amount of loan principal assigned to and accepted by the U.S. government on loans in default (contra account # 7-18).

2 - 3 Loan Principal Canceled - Teaching Service (10% Rate), Loans Made Prior to 7/1/72

2 - 4 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made Prior to 7/1/72

2 - 5 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made Prior to 7/1/72

Accounts # 2-3, 2-4, and 2-5 may be merged and maintained as one account titled "Loan Principal Canceled - Loans Made Prior to 7/1/72."

2 - 6 Loan Principal Canceled - Teaching Service (15% Rate), Loans Made 7/1/72 and After

2 - 7 Loan Principal Canceled - Teaching Service (20% Rate), Loans Made 7/1/72 and After

2 - 8 Loan Principal Canceled - Teaching Service (30% Rate), Loans Made 7/1/72 and After

2 - 9 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (15% Rate), Loans Made 7/23/92 and After

2 - 10 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (20% Rate), Loans Made 7/23/92 and After

2 - 11 Loan Principal Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education) (30% Rate), Loans Made 7/23/92 and After

2 - 12 Loan Principal Canceled - Military Service (12.5% Rate), Loans Made 7/1/72 and After

2 - 13 Loan Principal Canceled - Death

2 - 14 Loan Principal Canceled - Disability

Accounts # 2-13 and 2-14 may be merged and maintained as one account titled “Loan Principal Canceled - Death or Disability.”

All other canceled-loan entries are similar and are not shown here. Refer to the chart of accounts for the other cancellation accounts.

These separate cancellation accounts are maintained to show the cumulative amounts of loan principal canceled under the provisions of the law.

Debit these accounts for:

- No entries, except for correcting errors.

Credit these accounts with:

- Amounts of each appropriate category of loan principal canceled under the provisions of the law (contra accounts # 7-4 through 7-17).

2 - 29 Loan Principal Adjustments - Other: This is a credit balance account maintained to show the cumulative total amount of loan principal lost because of other reasons (such as write-offs) as specified by the Department. Each credit entry to this account should be adequately labeled to identify the reason for the adjustment.

Debit this account for:

- No entries, except for correcting errors.

Credit this account with:

- Amount of loan principal lost because of other approved reasons (write-offs) (contra account # 7-19).

4 - 1 Federal Fund Balance: This is a credit balance account maintained to show the federal share of the fund balance. This account should always show a credit balance for the federal share of income and expenses since the school began participating in the program.

Credit this account with:

- Closing entry at end of accounting fiscal year (federal share of contra accounts # 6-1, 6-3 through 6-7, 7-1 through 7-19).

4 - 2 Institutional Fund Balance: This credit balance account is maintained to show the institutional share of the fund balance. This account should always show a credit balance for the institutional share of income and expenses since the school began participating in the program.

Credit this account with:

- Closing entry at end of accounting fiscal year (institutional share of contra accounts # 6-2 through 6-6, 6-8 through 7-19).

6 - 1 Funds Transferred from G5 - Perkins - FCC: This credit balance account is maintained to track the total FCC transferred to the Perkins Loan fund from the G5 cash control account.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 4-1).

Credit this account with:

- Transfer from G5 - FCC (contra account # 1-1).

6 - 2 Funds Transferred from Institution - Perkins - ICC: This credit balance account is maintained to track the total ICC transferred to the Perkins Loan fund from the school.

Debit this account for:

- Closing entry at end of accounting fiscal year (contra account # 4-2).

Credit this account with:

- Mandatory transfers of the institution's matching share of the Perkins Loan allocation. This is one-third (33 1/3 percent) of the FCC amount or one-quarter (25 percent) of the combined FCC plus ICC (contra account # 1-1).

6 - 3 Interest Earned on Loans: This credit balance account is maintained to show the total interest that has been collected or has been canceled because of teaching service, military service, death, or any other authorized cancellation. It also includes interest from loans assigned to ED.

Debit this account for:

- The interest amount of returned checks and correction of errors (contra account # 1-1).
- Reclassification of the interest amount paid that is subsequently canceled (contra account # 2 -1).
- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

Credit this account with:

- The amount of loan interest collected (contra account # 1-1).
- The amount of loan interest canceled for teaching service (contra accounts # 7-4, 7-5).
- The amount of loan interest canceled for teaching service (where the field of expertise is: math, science, foreign language, bilingual education), on loans made 7/23/92 and after (contra account # 7-7).
- The amount of loan interest canceled for military service (contra accounts # 7-6, 7-8).
- The amount of loan interest canceled for death (contra account # 7-9).
- The amount of loan interest canceled for disability (contra account # 7-10).
- The amount of loan interest canceled for bankruptcy (contra account # 7-11).

- The amount of loan interest canceled for Peace Corps or VISTA (contra account # 7-12).
- The amount of loan interest canceled for Head Start (contra account # 7-13).
- The amount of loan interest canceled for Volunteer Service (contra account # 7-14).
- The amount of loan interest canceled for Law Enforcement and Corrections Officer (contra account # 7-15).
- The amount of loan interest canceled for Nurse/Medical Technician (contra account # 7-16).
- The amount of loan interest canceled for Child/Family and Early Intervention Service (contra account # 7-17).
- The amount of loan interest related to defaulted loans assigned to the U.S. government (contra account # 7-18).
- The amount of loan interest written off for other costs or losses (specify) (contra account # 7-19).

6 - 4 Other Earnings - Late Charges on Loans Made 7/1/87 and After: This credit balance account is maintained to show the earnings of the fund due to late charges assessed on loans made after 7/1/87.

Debit this account for:

- Late charge amounts reimbursed to the school (contra account # 1-1).
- Late charge amounts of returned checks (contra account # 1-1).
- Late charge amounts for correcting errors.
- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

Credit this account with:

- Late charges assessed and collected (contra account # 1-1).
- Amounts reimbursed by the school for the late charge portion of returned checks (contra account # 1-1).
- Late charges accrued and written off (contra account # 7-18).

6 - 5 Other Earnings - Miscellaneous: This credit balance account is maintained to show the earnings of the fund (other than interest on student loans or late charges assessed on loans made 1/1/86 and after), such as penalty charges on loans made 12/31/85 and before, and interest earned on fund cash balances. As it will be necessary to report separately on each type of earnings (penalty charges, interest, earnings, and so on), a subsidiary ledger account for each type of earnings is required. There may be periods when slack demand for loans, coupled with funds received for collection activities, might produce a temporary excess cash balance in the Perkins Loan fund; as a result, institutions are now required to maintain fund balances in insured interest-bearing accounts.

Debit this account for:

- Penalty charges for returned checks (contra account # 1-1).
- Correcting errors.
- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

Credit this account with:

- Penalty charges assessed and collected (contra account # 1-1).
- Interest earned on fund cash (contra account # 1-1).
- Any other earnings of the fund (contra account # 1-1).
- Penalty charges accrued and written off (contra account # 7-19).

6 - 6 Reimbursement of Amounts Canceled on Loans Made 7/1/72 and After: This credit balance account is maintained to show the amounts received from the U.S. government as a result of reimbursements on loans canceled for teaching (Head Start) and military service on loans made 7/1/72 and after, for Peace Corps or VISTA service for loans made after 6/30/87, for employment in law enforcement or as a corrections officer for loans made on or after 11/29/90, and for all cancellations authorized by the 1992 reauthorization of the Higher Education Act (HEA).

Debit this account for:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

Credit this account with:

- Amounts received from the U.S. government for reimbursement of the aggregate amount of institutional funds plus federal funds canceled due to any of the authorized cancellation provisions (contra account # 1-1).

6 - 7 Repayments to Federal Government: This debit balance account is maintained to show the total distribution of fund capital in case of partial dissolution of the Perkins Loan fund.

Debit this account for:

- Amount of the appropriate FCC repaid in partial dissolution of the fund (contra account # 1-1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 4-1).

6 - 8 Repayments to Institution: This debit balance account is maintained to show the total distribution of fund capital in case of partial dissolution of the Perkins Loan fund and to show when an school withdraws an overmatch.

Debit this account for:

- Amount of the appropriate ICC repaid in partial dissolution of the fund (contra account # 1-1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra account # 4-2).

7 - 1 Litigation Expenses: This is a debit balance account maintained to show the net amount paid for litigation arising in connection with Federal Perkins Loans.

Debit this account for:

- Amounts paid for litigation expenses (contra account # 1-1).

Credit this account with:

- Amounts collected from borrowers repaying litigation expenses (contra account # 1-1).
- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 2 Administrative Cost Allowance (ACA) Paid to Institution: This is a debit balance account maintained to show the amount of administrative expenses charged to the fund rather than reimbursement to the school by the Department. Such payments to the school are limited in total by regulations and may not be made from the Perkins Loan fund unless students receive advances of Perkins Loan funds during the award period.

Debit this account for:

- Amounts charged to the fund as authorized administrative cost allowance (ACA) (contra account # 1-1).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 3 Other Collection Expenses: This is a debit balance account maintained to show the net amount charged to the fund for collection expenses other than costs of litigation, such as commissions (as approved by the Department) paid to a collection agency.

Debit this account for:

- Amounts authorized to be charged to the fund as other collection expenses (contra accounts # 1-1 or 2-1).
- Amount of borrower-paid collection cost portion of returned checks (contra account # 1-1).

Credit this account with:

- Amounts collected from borrowers repaying costs of collection other than litigation expenses (contra account # 1-1).
- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 4 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made Prior to 7/1/72

7 - 5 Cost of Loan Principal and Interest Canceled - Teaching Service, Loans Made 7/1/72 and After

These debit balance accounts are maintained to show the total cost of loan cancellations for teaching service.

Debit these accounts for:

- Amounts of total principal and interest canceled for teaching service (contra accounts # 2-3, 2-4, 2-6, 2-7, 2-8, and 6-3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 6 Cost of Loan Principal and Interest Canceled - Military Service, Loans Made Prior to 7/1/72

7 - 7 Cost of Loan Principal and Interest Canceled - Teaching Service (Field of Expertise: Math, Science, Foreign Language, Bilingual Education), Loans Made 7/23/92 and After

These debit balance accounts are maintained to show the total cost of loan cancellations for military and teaching service.

Debit these accounts for:

- Amounts of total principal and interest canceled for these specific service areas (contra accounts # 2-5, 2-9, 2-10, 2-11, and 6-3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 8 Cost of Loan Principal and Interest Canceled - Military Service 7/1/72 and After

This debit balance account is maintained to show the total cost of loan cancellations for military service.

Debit this account for:

- Amounts of total principal and interest canceled for military service (contra accounts # 2-12, 6-3).

Credit these accounts with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 9 Cost of Loan Principal and Interest Canceled - Death: This is a debit balance account maintained to show the total cost of loan cancellations for death.

Debit this account for:

- Amounts of total principal and interest canceled for death (contra accounts # 2-13, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts #4-1, 4-2.

7 - 10 Cost of Loan Principal and Interest Canceled - Disability: This is a debit balance account maintained to show the total cost of loan cancellations for disability.

Debit this account for:

- Amounts of total principal and interest canceled for disability (contra accounts # 2-14, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 11 Cost of Loan Principal and Interest Canceled - Bankruptcy: This is a debit balance account maintained to show the total cost of loan cancellations for bankruptcy.

Debit this account for:

- Amounts of total principal and interest canceled for bankruptcy (contra accounts # 2-15, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 12 Cost of Loan Principal and Interest Canceled - Peace Corps or VISTA: This is a debit balance account to show the total cost of principal and interest canceled for service in the Peace Corps or VISTA for loans made after June 30, 1987.

Debit this account for:

- Amounts of total principal and interest canceled for service in the Peace Corps or VISTA (contra accounts # 2-16, 2-17, and 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 13 Cost of Loan Principal and Interest Canceled - Head Start: This is a debit balance account to show the total cost of principal and interest canceled for the Head Start Program.

Debit this account for:

- Amounts of total principal and interest canceled for the Head Start Program (contra accounts # 2-18, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 14 Cost of Loan Principal and Interest Canceled - Volunteer Service: This is a debit balance account to show the total cost of principal and interest canceled for volunteer service.

Debit this account for:

- Amounts of total principal and interest canceled for volunteer service (contra accounts # 2-19, 2-20, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 15 Cost of Loan Principal and Interest Canceled - Law Enforcement and Corrections Officer: This is a debit balance account to show the total cost of principal and interest canceled for borrowers employed in law enforcement or corrections.

Debit this account for:

- Amounts of total principal and interest canceled for a borrower's employment as a law-enforcement or corrections officer (contra accounts # 2-21, 2-22, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 16 Cost of Loan Principal and Interest Canceled - Nurse/Medical Technician: This is a debit balance account to show the total cost of principal and interest canceled for a borrower's employment as a nurse or medical technician.

Debit this account for:

- Amounts of total principal and interest canceled for a borrower's employment as a nurse or medical technician (contra accounts # 2-23, 2-24, 2-25, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 17 Cost of Loan Principal and Interest Canceled - Child/Family and Early Intervention Service: This is a debit balance account to show the total cost of principal and interest canceled for a borrower's employment in a child/family or early intervention service.

Debit this account for:

- Amounts of total principal and interest canceled for the child/family or early intervention service (contra accounts # 2-26, 2-27, 2-28, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 18 Cost of Defaulted Loan Principal and Interest Assigned to Federal Government: This is a debit balance account maintained to show the total cost of defaulted loans assigned to, and accepted by, the U.S. government.

Debit this account for:

- Amounts of total principal and interest related to defaulted loans assigned to the U.S. government (contra accounts # 2-2, 6-3).

Credit this account with:

- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

7 - 19 Other Costs or Losses: This is a debit balance account maintained to show the total amount of other costs or losses. Any entries to this account, such as accounts written off, should have full documentation of the reasons. In some cases, approval by the Department must be included as part of the documentation.

Debit this account for:

- Amounts of total principal, interest, penalty, and late charges written off because of other costs or losses. The reason for the write-off should be specified for easy identification in the account (contra accounts # 2-29, 6-3, 6-4, 6-5).

Credit this account with:

- Amounts of previous write-offs reversed due to collection (contra accounts # 2-29, 6-3, 6-4, 6-5).
- Closing entry at end of accounting fiscal year (contra accounts # 4-1, 4-2).

William D. Ford Federal Direct Loan Accounts

1 - 1 Cash, Direct Loans: All receipts and disbursements of cash related to the Direct Loan Program are recorded in this account.

Debit this account for:

- Transfers from G5 accounts (contra account # 6-1).
- Recoveries from recipients (contra account # 7-1).

Credit this account for:

- Payments to students (contra account # 7-1).
- Return of excess cash to via FEDWIRE or ACH (contra account # 6-1).

1 - 2 Accounts Receivable, G5: This debit balance account controls the transfer of cash directly from the G5 account established for Direct Loans.

Debit this account for:

- Amounts due from G5 for disbursement needs for the period (contra account # 6-1).
- Return of excess cash (contra account # 1-1).

Credit this account with:

- Cash transferred directly from the G5 account (contra account # 1-1).

6 - 1 Income from G5 - Direct Loans: This credit balance account reflects the income from the Direct Loan Program. This amount is not a transfer from the G5 account referred to in section 5.3. These separate accounts allow for reconciliation with the institution's records as part of the Direct Loan reconciliation process.

Debit this account for:

- Closing entry at end of accounting fiscal year, the income from G5 to meet disbursement needs for the period (contra accounts # 7-1, 7-2).

Credit this account with:

- Income from G5 recorded to meet current disbursement needs (contra account # 1-2).

7 - 1 Funds Advanced to Borrowers: This debit balance account is maintained to record payments made to students or parents for loans. This account may be further subdivided to separate disbursements for PLUS, subsidized, and unsubsidized loans.

Debit this account for:

- Loan payments made to students or students' parents (contra account # 1-1).

Credit this account with:

- Recoveries from loan recipients (contra account # 1-1).
- Closing entry at end of accounting fiscal year for the total amount of loan disbursements made to students or students' parents for the accounting period (contra account # 6-1).

Federal TEACH Grant Accounts

1 - 1 Cash, Federal TEACH Grants: All receipts and disbursements of cash related to the TEACH Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6-1).
- Recoveries from recipients (contra account # 7-1).

Credit this account with:

- Payments to students (contra account # 7-1).

6 - 1 Transfer from G5 - Federal TEACH Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the TEACH Grant account "Cash, Federal TEACH Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7-1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1-1).

7 - 1 Student Grants Paid - Federal TEACH Grant: This debit balance account is maintained to record payments made to students for TEACH Grants.

Debit this account for:

- Grant payments made to students (contra account # 1-1).

Credit this account with:

- Recoveries from recipients (contra account # 1-1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6-1).

Federal Iraq and Afghanistan Service Grant Accounts

1 - 1 Cash, Federal Iraq and Afghanistan Service Grants: All receipts and disbursements of cash related to the Iraq and Afghanistan Service Grant Program are recorded in this account. Typically, this account would show a zero balance after each period's entries are posted, as the transfer of funds from G5 should equal only the amount of grants to be paid immediately to students.

Debit this account for:

- Transfers from G5 account (contra account # 6-1).
- Recoveries from recipients (contra account # 7-1).

Credit this account with:

- Payments to students (contra account # 7-1).

6 - 1 Transfer from G5 - Federal Iraq and Afghanistan Service Grants for Students: This credit balance account controls the transfer of cash from the G5 account "Cash Control, G5" to the Iraq and Afghanistan Service Grant account "Cash, Federal Iraq and Afghanistan Service Grants." Such cash transfers should be made only in the precise amounts needed immediately to pay grants to students.

Debit this account for:

- Closing entry at end of accounting fiscal year, the total amount of cash transferred from G5 account to meet disbursement needs for the period (contra account # 7-1).

Credit this account with:

- Cash transferred from G5 account to meet current disbursement needs (contra account # 1-1).

7 - 1 Student Grants Paid - Federal Iraq and Afghanistan Service Grant: This debit balance account is maintained to record payments made to students for Iraq and Afghanistan Service Grants.

Debit this account for:

- Grant payments made to students (contra account # 1-1).

Credit this account with:

- Recoveries from recipients (contra account # 1-1).
- Closing entry at end of accounting fiscal year for the total amount of grant payments made to students for the accounting period (contra account # 6-1).

A School's Financial Management Systems

CHAPTER 4

The accounting procedures and financial management systems used by a school to record and report on the transactions in the FSA programs play a major role in the school's management of those programs. In this chapter, we will discuss the minimum criteria for those procedures and systems, identify areas where problems might arise, and point out potential system weaknesses.

FINANCIAL MANAGEMENT SYSTEMS

A school's financial management system (including the school's accounting system) must provide effective control over and accountability for all funds received from the U.S. Department of Education's (ED's) Grant Administration and Payment System (G5). An FSA fiscal management system includes procedures for

- requesting funds from ED;
- disbursing funds to eligible students and parents;
- accounting for funds and financial activities;[1]
- keeping accurate and auditable records including providing the clear audit trail required by cash management regulations;[1]
- meeting the documentation requirements of the individual program regulations;
- managing cash;
- ensuring proper filing of timely applications; and
- enabling timely internal and external financial reporting.

At a minimum, a school's financial management system including its accounting system must provide

1. accurate, current, and complete disclosure of the financial condition of each federal aid program or project sponsored by ED;
2. records that adequately identify the source and application of funds for sponsored activities and contain information on institutional awards, authorizations, obligations, unobligated balances, assets, income, liabilities, revenues, expenditures, and cash disbursements;[1]

1. Accounting system function;

Financial management systems
34 CFR 668, Subpart K

Accounting System Defined

A school's accounting system includes those procedures that deal with the organization and controls necessary to identify and record transactions in a school's journals and ledgers, while systematically providing for the supporting documentation for all journal entries. The accounting system is a subset of the school's larger system of financial management.

3. effective control over and accountability for all funds, property, and other assets, including adequate safeguarding of all such assets to ensure that they are used solely for authorized purposes[2];

4. comparison of actual expended amounts with amounts budgeted for each FSA program;[2]

5. procedures to ensure the timely, efficient transfer of funds when they are advanced through electronic methods (these procedures must limit the time between the transfer of funds from the U.S. Treasury and cash disbursement by the school to students so that funds are disbursed no later than three business days following the receipt of funds, and do not result in excess cash.);[2]

6. procedures according to the applicable terms of the FSA program for determining reasonableness, allowability, and allocability of costs;[2]

7. accounting records that are supported by audit trail documentation;[1]

8. monthly reconciliation of individual student FSA awards as recorded in the financial aid, business office, student account, and Department systems (for Pell and Direct Loan);[2] and

9. examinations in the form of external or internal audits, which must be made according to generally accepted auditing standards and government auditing standards.[2]

Schools organize and manage their financial operations differently depending on such factors as the size of the school, administrative structure, staffing, automation, and federal program participation. Although fiscal operations can vary from school to school, successfully managing FSA programs at any school depends on coordinated efforts across institutional offices.

Coordination has become increasingly important as automated systems have replaced paper-based ones. Automated systems bring many benefits, such as enhanced data integrity and speedy data exchange. However, they also present challenges. **Perhaps the most critical challenge is that automation can blur responsibility for functions that, by law, must be kept separate, such as awarding and disbursing federal funds.**

1. Accounting function;
2. Financial management system function

THE NETWORK OF RESPONSIBILITIES

Managing FSA assistance is a school-wide responsibility. FSA program funds are provided to the school, and all offices at a school must work together to ensure successful program management. A school's FSA program management generally takes place in three functional areas:

- the office of the chief executive (CEO, president, chancellor, owner, etc.),
- the financial aid office, and
- the business (bursar's) office.

Schools differ in how they divide these functions among administrative offices. However, the president's office, the financial aid office, and the business office always play key roles.

The CEO's office

Ultimate responsibility for a school's FSA programs resides with the school's CEO. Although authority and responsibility are delegated to other offices, the leadership and support of the CEO are crucial to successfully administering FSA programs. By recognizing the importance of federal aid programs, making FSA program administration a high priority, and holding key officials accountable, CEO leadership can foster an environment that promotes an effective and responsive financial aid program that meets institutional goals, students' needs, and federal requirements.

The next page lists the administrative responsibilities of a school's CEO.

The CEO/president must ensure that a school –

- meets the financial standards for administering the FSA programs
- has an individual capable of administering the FSA programs and coordinating federal and nonfederal financial aid
- has an adequate number of qualified staff to administer FSA programs
- has a procedure to report changes to ED about the school's current eligibility status (for example, changes in ownership, address, name, officials, third-party servicers, programs, and locations)
- has a procedure to ensure that FSA funds for new programs and locations are not disbursed until approvals (when required) are received from ED
- has established clear lines of responsibility among the pertinent school offices
- has good communication and cooperation among personnel in the pertinent school offices
- maintains effective recordkeeping systems for both student records and financial records
- has an adequate system of checks and balances to ensure separation of award functions from disbursement functions
- has accurate information about student applicants for FSA aid and resolves any discrepancies or inconsistencies
- provides adequate financial aid and loan debt management counseling to students
- refers any suspected cases of FSA fraud, abuse, or misrepresentation to ED's Office of Inspector General (OIG)
- obtains a letter of credit (if the school has failed to meet the standards of financial responsibility)[1]
- has an independent auditor perform an annual federal audit of the school's FSA financial operations[2]
- cooperates fully with any program reviews or audits and makes available all necessary information to the reviewers or auditors
- has no criminal or fraudulent activities occur as it manages federal funds and administers FSA programs
- has established reasonable standards of satisfactory academic progress (SAP) for students
- has established a fair and equitable institutional refund policy (if required by the school's accrediting agency)
- has an operable and accessible drug abuse prevention program, as required by the Drug-Free Schools and Communities Act
- is a drug-free workplace, as required by the Drug-Free Workplace Act
- makes available all published information required by the Student Right-to-Know Act and the Campus Security Act and any other applicable laws and regulations
- provides the services described in its publications

For complete information about the requirement to obtain a letter of credit when a school fails to meet the standards of financial responsibility, and the requirement to obtain an independent audit of a school's participation in the FSA programs please see the ***Federal Student Aid Handbook, Volume 2***.

The financial aid office

While a school's financial aid office is usually assigned most of the responsibility for administering FSA programs, its role in the institution's fiscal operation is a limited one. In some cases, functions such as loan counseling might be performed by the business office instead of the aid office.

Responsibilities commonly assigned to a school's financial aid office

- Advise and counsel students and parents about financial aid
- Provide students with consumer information, as required by federal regulations
- Develop written policies and procedures about the way the school administers FSA programs
- Determine students' eligibility for financial aid
- Make financial aid awards to students
- Adhere to the principle of separation of functions (no single office or individual may authorize payments and disburse FSA funds to students)
- In administering financial aid programs, coordinate financial aid activities with those of other school offices
- Interact with various outside groups, agencies, associations, and individuals about issues concerning the school's administration of financial aid programs
- Monitor students' satisfactory academic progress (SAP)
- Maintain school records and student records that document the administration of the financial aid office and provide data for reports
- Keep current on changes in laws and regulations to ensure that the school remains in compliance
- Assist in reporting program expenditures
- Manage and report on activities that involve financial aid funds
- Calculate the return of Title IV funds and, if it applies, authorize post-withdrawal disbursements to students
- Assist in reconciling loan records (for schools in the Direct Loan Program)
- Reconcile student financial aid data provided to the business office to ensure all payments have been made, return of FSA funds have been accounted for, and expenditures have been reported
- Have a procedure to report any changes to ED about the school's current eligibility status (for example, change in ownership, address, name, officials, third-party servicers, etc.)
- Perform (limited) fiscal operations, such as:
    - authorizing payment of FSA funds to student accounts or to students directly
    - authorizing return of Title IV funds to program accounts and post-withdrawal disbursements to students
    - notifying a student who owes an overpayment as a result of the student's withdrawal from the school in order for ED or the school to recover the overpayment
    - notifying ED of the overpayment
    - coordinating submission of the Fiscal Operations Report and Application to Participate (FISAP)
- Provide entrance and exit counseling to borrowers of FFEL Program loans and Direct Loan Program loans as part of the award and delivery process[1]
- Provide entrance and exit counseling to borrowers of Federal Perkins Loans as part of the award and delivery process[2]

1, 2 At some schools, the business office performs this function

The business (bursar's) office

Most FSA related fiscal operations are handled by a school's business office, also. This office may also be known as the fiscal office, finance office, comptroller's office, bursar's office, treasurer's office, or student accounts office. For the duration of this text, this office will be referred to simply as *the business office.*

The business office provides critical services to the school in managing both federal and nonfederal financial aid programs. Administering the accounting, recordkeeping, and reporting functions related to the school's use of federal and other funds requires many detailed, complex systems. Strong internal controls and sound business and financial management practices are keys to the success of these operations and delivering funds to students.

The next page lists some of the common responsibilities of the business office.

Responsibilities commonly assigned to a school's business office

- Coordinate activities and cooperate with the financial aid office in
    - projecting cash needed to cover disbursements
    - processing cancellations and institutional refunds
    - obtaining authorization to pay FSA funds
    - being aware of the changes in FSA laws and regulation
    - submitting accurate and timely reports
    - reconciling records to ensure that financial aid adjustments are properly recorded
- Maintain a system of internal controls that includes adequate checks and balances
- Ensure that the functions of authorizing and disbursing FSA funds remain separate
- Maintain records consistent with Generally Accepted Accounting Principles (GAAP), and government auditing standards
- Maintain records to ensure a clear audit trail
- Draw down and return FSA funds to program accounts
- Disburse funds to eligible students from FSA program accounts
- Maintain a system of student accounts that records charges, credits, and amounts due
- Collect Federal Perkins Loans[1]
- Calculate the return of Title IV funds, and if it applies, authorize post-withdrawal disbursements to students[2]
- Establish and implement the institution's refund policy (if required by the school's accrediting or state agency)[2]
- Process return of Title IV funds to program accounts and post-withdrawal disbursements to students according to the applicable federal laws and regulations
- Assist in reporting FSA expenditures to the Department in a timely manner
- Reconcile accounts, including:
    - reconciling cash between school records and bank statements and reports
    - reconciling federal funds between bank statements and federally reported balances
- Assist in completing applications, fiscal reports for federal funds, and FISAP
- Maintain a cash management system to meet disbursement requirements and federal laws and regulations
- Provide general stewardship for federal funds, including maintaining bank accounts and investments as appropriate
- Prepare for and participate in FSA program reviews and audits
- Before making a first disbursement of Direct Loan or Perkins Loan funds, confirm that new borrowers have completed entrance counseling[2]
- Ensure that Direct Loan and Perkins Loan borrowers have completed exit counseling within the time permitted by the appropriate regulations and school policies[3]
- Establish and monitor Federal Work-Study (FWS) payroll and time sheets[4]

1. At some schools, a separate student loan office collects these loans.
2. At some schools, the financial aid office performs this function.
3. At some schools, these activities are performed by the financial aid office. In addition, the business office may be responsible for administering other aspects of the Federal Perkins Loan Program. While the financial aid office may be responsible for awarding Perkins Loan funds, the business office may be responsible for collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, canceling loans, and reporting Perkins Loans to NSLDS.
4. At some schools, the personnel office performs this function.

Synchronizing operations and responsibilities

Typically, several offices at your school will share responsibility for managing any one FSA program. To illustrate this network of responsibilities, consider the relatively routine activity of managing Federal Work-Study (FWS) Program time sheets for student employees. The financial aid office typically authorizes FWS awards and monitors student earnings to ensure students have not exceeded their authorized awards. On the other hand, the business office usually processes payroll and monitors the school's nonfederal share of FWS to ensure the school is adequately matching the federal share. Your school's processes should demonstrate similar interdependence in your management of its FSA programs. To further explore this principle, if your school participates in the FWS programs, please complete the FWS questionnaire on the next page as it applies to your school.

FWS Questionnaire on Network of Responsibilities

1. The Federal Work-Study (FWS) Program time sheet requires oversight certification. Who is authorized to certify that a student has worked the hours reported and earned the amount paid?

2. Students must remain eligible from one term to the next. Who monitors student eligibility and academic progress?

3. Some eligibility requirements are school policies. Who develops these policies for the school?

4. Students are paid wages on the basis of their time sheets.
   - Who collects the time sheets from students?
   - Who processes the payroll?
   - Who reconciles the payroll to the time sheets?
5. Students may only earn up to the amount of their authorized FWS awards.
   - Who determines the amount of the award?
   - Who monitors students' earnings to ensure they do not earn more than that amount?

6. Schools must develop and place students in FWS jobs.
   - Who locates and develops these jobs?
   - Who places students in these jobs?

7. All schools are required to spend at least seven percent of the federal allocation of their FWS funds to employ students in community service positions.
   - Who locates and develops these jobs?
   - Who monitors the percentage of funds used for these jobs?

8. Student earnings are part of the institution's overall FWS budget.
   - Who develops the budget?
   - Who monitors allocations and disbursements?
   - Who monitors expenditures?

9. Schools that receive FWS funds are required to apply for those funds and to report to the Department on the use of those funds.
   - Who completes the application?
   - Who completes the report?

Checks and balances
34 CFR 668.16(c)(1)
34 CFR 674.19(a)
34 CFR 675.19(a)
34 CFR 676.19(a)

INTERNAL CONTROLS – A SYSTEM OF CHECK AND BALANCES

In addition to having a well-organized financial aid office staffed by qualified personnel, a school must ensure that its administrative procedures for the FSA programs include an adequate system of internal controls or checks and balances.

What is internal control

Internal control is an integral component of an organization's management. An effective internal control structure includes a school's plan of organization and all the policies, procedures and actions taken by the school to provide **reasonable assurance** that the school will achieve its objectives in the following areas:

1. effectiveness and efficiency of operations;
2. accuracy of operating data;
3. reliability of program reporting;
4. protection of funds against fraud and misuse; and
5. compliance with organizational policies and applicable FSA laws and regulations.

The first category addresses a school's administrative objectives, including performance and financial goals and safeguarding of resources. The second relates to the need to ensure that the decisions made by a school in its day-to-day operations are based on accurate information. The third relates to the preparation of financial statements, audits, and other fiscal and operational reports a school is required to make to the Department. The fourth refers to a school's fiduciary responsibility to safeguard FSA funds and ensure they are used for the purposes and by the recipients intended. The fifth addresses the requirement that a school comply with all applicable federal, and state, laws and regulations, as well as the regulations of its accrediting agency.

Components of internal control

Internal control consists of five interrelated components derived from the way a school is managed. The components are:

- *Control Environment* – The control environment sets the tone of an organization and influences the mind-set of its employees. It is the foundation for all other components of internal control, providing its discipline and structure. Control environment factors include the integrity, ethical values, and competence of the school's people; management's philosophy and operating style; and the way a school's administration assigns authority and responsibility and organizes and develops its employees.

Administrators must convey the message that integrity and ethical values cannot be compromised, and employees must receive and understand that message. Adopting codes of conduct and other policies regarding acceptable institutional practices, conflicts of interest, and expected standards of ethical and moral behavior help establish an organizational climate in which the other components of internal control are able to achieve their purposes.

- *Risk assessment* – Every entity faces a variety of risks from external and internal sources. Risk assessment is the identification and analysis of risks that have the potential to negatively affect a school's satisfactory management of the FSA programs, its financial strength, its public image, and the overall quality of its programs and services.

  Many techniques have been developed to identify risks. The majority—particularly those developed by internal and external auditors to determine the scope of their activities—involve qualitative or quantitative methods to prioritize and identify higher risk activities. The FSA Assessment Tools can help your school identify needed areas of improvement. In addition, your case management team can provide you with a list of those fiscal and administrative responsibilities that were most often problematic during recent program reviews.

  Certain circumstances demand special attention because of their potential impact on the control environment. For example, when any of the following occur, a school should examine the ways in which it affects the schools operations and the appropriate response.

  - *A change in the operating environment*. Changes in the HEA or state law, ED's regulations, or accrediting agency procedures might require a change in organizational procedures.
  - *New personnel*. Turnover of personnel in the absence of effective training and supervision can result in breakdowns in the control environment.
  - *New or revamped information systems*. Normally effective controls can break down when new systems are developed, particularly when those systems are brought online under tight time constraints or at a critical time (e.g., just before registration).
  - *Rapid growth*. When a school experiences rapid growth in the number of FSA recipients or the amount of federal funds it is receiving on behalf of those recipients, existing control systems may break down.
  - *New technology*. When a new technology is incorporated into management practices, a high likelihood exists that internal controls will need to be modified.

Adopting EFT as the method of distributing FSA credit balances, and changing to the use of *smart cards* as a mechanism for providing access to student's FSA funds are examples of technologies that may require changes in control procedures.

- *Information and communication*. Pertinent information must be identified, captured, and communicated in a form and time frame that enables employees to carry out their responsibilities. One type of communication involves the creation of an appropriate control environment. A second involves operational, financial, and compliance related information.

  All employees must receive a clear message from senior administrators that control responsibilities must be taken seriously. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others. They must have a means of communicating significant information to those administrators who can affect change.

  Employees at all levels need access to information to make appropriate operational, financial, and compliance decisions. The quality of information is determined by the degree to which the

  - *content is appropriate* – Is the needed information there?
  - *information is timely* – Is it there when required?
  - *information is current* – Is it the latest available?
  - *information is accurate* – Are the data correct?
  - *information is accessible* – Can it be obtained easily by appropriate parties?

- *Monitoring* – Internal control systems need to be monitored—a process that assesses the quality of the system's performance over time. This can be accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities and other actions employees take in performing their duties.

  On the other hand, successful institutions pause from time to time to evaluate the degree to which they are achieving their objectives and plan for changes needed to improve performance where needed. Evaluating the success of internal control procedures should be part of an institution's periodic overall evaluations.

- *Control Activities* – Control activities are the policies and procedures that help ensure a school's administrative directives are followed. They help guarantee that the actions necessary to reduce risk are carried out. Control activities occur throughout an organization and include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and periodic reviews of performance, security of funds, and separation of function.

  Control activities usually involve two elements: (1) a policy that establishes what should be done (and that serves as a basis for the second element), and (2) procedures to implement the policy. The most effective policies and procedures are those that are written. Control activities should be part of new employees' orientation, and the subject of periodic training for continuing employees.

Of course, no matter how well designed and operated, internal control cannot provide absolute assurance that all objectives will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. In addition, modern data management systems create special problems because often, paper and audit trails may be problematic. Good systems of internal control should provide for paper documentation at key points in the electronic system.

One key feature of any internal control system should be built in **independent checks** on performance. In large organizations, the internal audit function should report directly to the CEO or board of directors. This helps avoid the difficulties and conflicts of interests that result when the internal audit staff reports to the accounting manager, Vice President for Finance, or Chief Financial Officer. In small organizations where total separation of duties is not an economically viable alternative, owners and presidents must be involved in the control system through independent performance checks. In addition, they must assume key duties such as check signing and monthly bank account reconciliations.

A thorough discussion of the creation of an school-wide internal control environment is beyond the scope of this volume. However, we want to emphasize the importance of a school-wide commitment to control activities that begins with a school's chief executive and involves all employees who in any way participate in the school's FSA programs or are responsible for FSA funds.

Separating functions
34 CFR 668.16(c)(2)

Family defined
A member of an individual's family is a parent, sibling, spouse, child, spouse's parent or sibling's, or child's spouse.

Definition of control
34 CFR 600.30(b)

Ownership interest
34 CFR 668.15(f)

Control activities important in managing FSA funds

To participate in federally funded student financial aid programs, a school must be able to demonstrate that adequate checks and balances are in place. A school's internal control system should, at a minimum, include –

- **separating the functions** of authorizing and awarding FSA aid and disbursing FSA program funds;
- **taking trial balances** (to determine whether accounts are in balance);
- **reconciling cash** (a reconciliation between accounting [ledger] balances and bank balances);
- **reconciling federal funds** (ensuring that all federal funds drawn down are appropriately disbursed or returned within the time frames allowed by regulation); and
- maintaining adequate **electronic data processing (EDP) controls.**

A school should use its internal audits or external audits to verify that the systems of checks and balances in place at the school have been properly designed and are being followed routinely.

The separation of functions

To accomplish separation of duties, duties are divided among different individuals to reduce the risk of error or inappropriate action, (for example, when the employee or office responsible for safeguarding an asset is someone other than the employee or office that maintains accounting records for that asset). In general, responsibility for related transactions should be divided among employees so that one employee's work serves as a check on the work of other employees. When duties are separated, there must be collusion between employees for assets to be stolen and the theft disguised in the accounting records.

Federal regulations require a school to separate the functions of authorizing payments and disbursing funds so that no single office or individual exercises both functions for any student receiving FSA funds. Even very small institutions with limited staff are not exempt from this requirement. These two functions must be performed by individuals who are not members of the same family, who do not together exercise substantial control over the school, and who are organizationally independent.

Individuals with responsibility for authorizing or disbursing FSA funds may perform other functions as well, but they may not perform both the authorization and disbursement functions. If a school performs these functions via computer, no one person may have the ability to change data that affect both the authorization and disbursement of FSA funds.

Typically, the financial aid office is responsible for authorizing disbursements by awarding aid through the need analysis and packaging processes. Awards are then turned over to a business office that typically requests funds from ED's Grant Administration and Payment System (G5), and disburses the funds by crediting student accounts, delivering checks to students, authorizing an electronic transfer of funds (EFT), or delivering cash to students. The person (or office) that awards FSA funds may not sign checks or deliver them to students, nor be permitted to disburse cash to students, or to credit student accounts with FSA funds to cover allowable costs (such as tuition, fees, books, supplies, or other authorized charges).

There should also be a segregation of functions within the business office. This separation should provide that the individual within the school who reconciles federal cash does not also receive federal cash or disburse it. This will ensure that several individuals at the school evaluate federal funds and, at each step of the process, that the applicable regulations are being followed.

The person performing reconciliations should receive bank statements and Direct Loan reconciliation reports directly from the respective, appropriate sources. Supervisory approval of the completed reconciliations should also be obtained and documented on the forms.

While electronic processes enhance accuracy and efficiency, they also can blur separation of functions so the awarding and disbursement occur virtually simultaneously. Schools must set up controls that prevent an individual or an office from having the authority (or the ability) to perform both functions. In addition, your system also should have controls that prevent cross-functional tampering. For example, financial aid office employees should not be able to change data elements that are entered by the registrar's office. Finally, your system only should allow individuals with special security classifications to make changes to the programs that determine student need and awards, and it should be able to identify the individuals who make such changes.

For further guidance on the separation of functions, contact the Department's Case Management and Oversight Team that serves your school's state.

Remember, because electronic processes can blur separation of functions, a school must be careful to create controls that ensure separation of authorizing FSA payments and disbursing FSA payments. This also applies within the business office itself. One individual should not be solely responsible for receiving funds and reconciling those funds.

Internal controls in automated systems

Since no one person may have the ability to change data that affect both authorization and disbursement, if award entries made by the financial aid office automatically roll over and populate award fields in the business office, then the separation of functions must take place elsewhere.

For example, if your system automatically awards funds based on a student's budget and/or need, then your system must ensure that only employees with a special security standing can change those budgets or otherwise modify a student's award. In addition, your system must be able to identify any employee who makes a change to a data element or program that can affect the level of a student's award (anyone who initiates a budget or award override).

Trial balance

A trial balance is the confirmation that debit and credit balances are equal. A trial balance for federal student financial aid programs is a confirmation that accounts receivable, program expenditures, and the cash balance equal the amount of aid that has been authorized by the financial aid office.

To be effective, taking a trial balance should be performed at least monthly and reconciling cash should be performed when bank statements are received or at least monthly if statements are received more frequently.

Reconciliation of bank records

Since cash is more susceptible to manipulation than other assets, multiple checks and balances are necessary for effective internal control of cash.

Reconciling cash is one confirmation that the cash balance shown in the school's accounting records is in agreement with the balance reflected in the school's bank statement. Differences between the school's accounting records and the school's bank statement balance can be caused by timing variances, errors, or unrecorded entries. The bank reconciliation process can lead to adjusting entries for

- bank service charges;
- non-sufficient funds (NSF) charges;
- debit and/or credit memoranda; and
- correcting errors.

The individual performing bank reconciliation should be trained to recognize and report sources of errors such as

- delays in deposit;
- checks that remain outstanding after long periods of time;
- irregularities in funds transfers and adjustments; and
- deviations on canceled checks (payee, signature, or endorsement).

The prompt and thorough performance of bank reconciliation duties enhances the internal control system.

Note that if a school maintains separate bank accounts for each program, a separate bank reconciliation process should be performed for each account/program.

Reconciling FSA funds

Reconciliation of FSA funds is a key component of internal control in the FSA programs. A school reconciles data when, for example, on the FISAP it reports cumulative data for its Federal Perkins Loan portfolio. A school also performs reconciliation on an annual basis when it reports annual FSEOG data on the FISAP and when it closes out its general ledger. However, to help fulfill its responsibility to safeguard federal funds and ensure they are expended as intended, a school must perform reconciliation in each FSA program monthly. That is, to provide adequate internal controls, a school must have a system for comparing separately, for each FSA program, the total draws recorded in G5 in a 30-day period to the amount disbursed to students or returned to the Department and explaining all discrepancies.

Reconciliation in the FSA programs is an internal control procedure that helps ensure that a school has met its fiduciary responsibility to use its FSA funds in the manner and for the purposes prescribed by regulations. The process of reconciliation as required in the regulations applies primarily to a school's accounting records. Other internal control procedures ensure that a school's other fiscal records and its program records are being maintained properly and that they accurately reflect the schools's FSA operations.

During reconciliation, a school compares its G5 records to its banking records, and the accounting entries in its FSA cash accounts to the accounting entries in its FSA disbursement accounts. The reconciliation process will seek to explain the differences between the funds the school received and the funds the school disbursed or returned.

Regulations require that all federal funds drawn down be accounted for. Moreover, a school must identify expenditures of FSA funds on a student-by-student basis. So, if the trial balances run for one or more of the FSA programs fail to show that all federal funds received by the school were disbursed or returned in the time frames allowed by regulations, the school will have to examine its accounting detail (student-by-student records) to identify the discrepancies keeping the accounts out of balance. **All discrepancies must be explained for the accounts to be considered reconciled.**

A key element in the reconciliation process is the clear audit trail a school's accounting records should provide. That audit trail should track FSA funds from G5 to individual students.

Part of the monthly reconciliation a school must perform requires examining fiscal and program records to ensure that they agree with and substantiate the reconciled accounting records.

Required fiscal records

34 CFR 668.24(b)

Reconciliation is one of the tools a school uses to evaluate its system for accounting for the receipt and expenditure of FSA funds in accordance with generally accepted accounting principles.

Monthly reconciliation required

34 CFR 674.19 (d)(1),
34 CFR 675.19(b)(2)(iv), 34 CFR 676.19(b)(2), and 34 CFR 685.102(b)

FSA Assessments

can help you in reconciling and other fiscal management activities. Administrators may access the tools and training through the Quality Assurance Program Web page on IFAP. The direct links to the FSA Assessment Tools & Training are

http://ifap.ed.gov/qahome/assessmenttraining.html

or

http://ifap.ed.gov/qahome/fsaassessment.html

As an alternative on the Quality Assurance Program home page FAA's may select "**Training & Guidance**" and then "**FSA Assessments**"

or

"Tools for Schools" and then "**FSA Assessments.**"

The Quality Assurance Program website is -

http://ifap.ed.gov/qahome/Default.html

The assessments that might be of special interest to the business office are – Fiscal Management, Return of Title IV Funds, FSEOG, FWS, Perkins and Default Prevention Management.

Example of An Audit Trail for an FSEOG Cash Draw

1. Examining its cash draws as recorded in G5 for the previous 30-day period, a school finds a record of a drawdown of $75,000 in federal funds identified as FSEOG federal share.
2. The school examines its bank records for the account the school has designated to receive FSA funds to ensure that the funds were received.
3. In the school's G5 Cash Control Account, the $75,000 is entered as an offset to $75,000 in G5 Accounts Receivable.
4. The records show a $75,000 credit to the G5 Cash Control Account (an asset account) and a $75,000 debit to the income account, FSEOG Transfer from G5.
5. At the same time the records should show that the school deposited its match[1]—credited its Institutional Cash Account with $25,000, and debited Institution's Cash Contributions (its G5 income account) with $25,000. (Note that the detail record for this transaction is the school's bank records and its internal subsidiary ledgers.)
6. The records show a $75,000 credit in FSEOG Transfer from G5 and $25,000 credit in Institution's Cash Contributions and debits of $25,000 and $75,000 to the expense account Student Grants Paid - FSEOG.
7. Student Grants Paid - FSEOG shows a credit of $100,000 to a the individual student accounts. (The records might show one credit of $100,000 to a memo account in which the detail of the individual students who received the grants is present.)
8. The student account records (student account cards in a manual system) are fiscal records (not program records). The account records are the detail records that substantiate the subsidiary ledger Student Grants Paid. They substantiate that the $75,000 G5 draw was used as intended.

1. If a school matches with tuition, fees, room and board, waivers, etc., the school's accounting records must show a clear audit trail from the noncash match in the student's account to the Memo Account "Institution's Noncash Contribution."

Note: Generally, program records are maintained by the financial aid office and fiscal records by the business office.

Questions you can ask about your program and fiscal records include:

- What program records does your school use to determine the amount of your federal funds request to G5. Do the date and amount of your anticipated disbursements of grant, loan, and FWS payroll funds support the cash requests you've made to G5?
- Do the amounts and dates of your school's calculations of refunds or overpayments made or due to ED, and the amounts and dates of Return calculations for students who withdraw substantiate the entries in the G5 cash control contra account *Funds Returned to ED*?

As part of your school's internal control procedures, you should have a system that examines your fiscal and program records to ensure they are in agreement and support your accounting records. We will provide examples of those internal control procedures in our discussion of the individual FSA programs.

Electronic data processing (EDP) controls

The Department continues to encourage and support schools' use of electronic recordkeeping and communications. Of course, any time a school uses an electronic process to transfer funds, record or transmit confidential information, or obtain a student's confirmation, acknowledgment, or approval, the school must adopt reasonable safeguards against possible fraud and abuse. Reasonable safeguards include:

- creating written policies and procedures for the security and proper operation of student information systems that go all the way down to the individual user level;
- informing authorized users of guidelines for proper system use, and having users acknowledge their responsibilities by signing an acknowledgment statement;
- issuing unique user IDs and passwords to each employee to ensure individual user accountability;
- changing passwords frequently;
- revoking access for unsuccessful log-ins;
- segregation of computer security duties and responsibilities, including granting appropriate levels of access to staff and limiting an employee's access to only those functions necessary to perform his/her assigned duties;

- establishing adequate software-security controls, audit functions, user identification, entry point tracking, and system surveys (these security controls should be sufficient to indicate or detect possible misuse, abuse, or unauthorized activity on the system), and conducting random audits of the system using the aforementioned functions;
- providing adequate provisions for system and data back up, contingency, disaster recovery, and business resumption;
- conducting security tests of code access; and
- physical computer security.

Before the start of an award year, you should test your school's automated packaging program to ensure that the calculations used to determine the amount of students' grant, loan, or FWS awards yield consistent results, and that the awards that result are within the amounts allowed by regulation. In addition, you should compare the records of awards made to students by the financial aid office to the records of those awards in the business office.

Other checks and balances

Assigning specific duties to individual employees

When the responsibility for a particular work function is assigned to one employee or to a small group of employees, that employee (or that group) is accountable for specific tasks. Then, if a problem occurs, the employee responsible can be easily identified.

Rotating job assignments

Some schools cross train their employees and rotate job assignments each fiscal year. This policy discourages employees from engaging in long-term schemes to defraud the school and ED. Rotating assignments also makes it more likely that theft or misuse will be discovered quickly because an employee in a new assignment will quickly identify behavior or records that are out of compliance with school policy or ED regulations.

Mechanical devices and system safeguards

Requiring the use of simple mechanical devices can often reduce temptation and prevent theft. For example, schools that distribute FSA credit balances by check should adopt procedures that ensure that checks that cannot be delivered are returned to a lockbox type device—not to the school's mail room. Returned checks should be recorded and provided the same safeguards as cash.

Policies and procedures manuals

Control activities usually involve two elements—policies establishing what should be done, and procedures to effect the policies. For example, in evaluating satisfactory academic progress (SAP), a school might have a *policy* that, to be considered to be making satisfactory academic progress, a student must have a 2.0 GPA once that student has attempted 60 credits. The *procedures* associated with that policy are the action steps the school takes to measure a student's progress in increments and intervene with students who appear to be in danger of failing to achieve the required GPA.

Many factors support the creation of a written policies and procedures manual for a school's participation in the FSA programs. The first factor is compliance with Department regulations. In some cases, e.g., verification deadlines, withdrawal procedures, approved leaves of absence and SAP, schools are required by ED regulations to have written procedures and to make them available. Second, for policies and procedures to be created with input from all appropriate offices within an organization the draft versions must be in writing so everyone works from the same starting point. Third, thoughtful, conscientious, and consistent implementation of any organization-wide activity requires a mutually agreed upon and understood framework for the activity. Finally, a comprehensive, well-written policies and procedures manual can

- document how and when the school establishes specific policies and procedures;
- provide a single location for the school's policies and procedures;
- serve as a valuable reference during a program review or audit;
- provide the basis for orientation and training of new employees and refreshing the skills of current employees.

FSA Assessments can assist schools with creating a policy and procedure manual. Administrators may access the tool through the Quality Assurance Program Web page on IFAP. The direct link to the FSA Assessment tool for assistance with creating a policy and procedure manual is accessible at

http://ifap.ed.gov/qahome/fsaassessment.html.

Under the schools section, the first bullet point – *A Guide to Creating a Policies and Procedures Manual* - will provide the necessary guidance. The direct link to this section is

http://ifap.ed.gov/qahome/qaassessments/makingofapandpmanual.html

The Department strongly recommends that participating schools create policies and procedures manuals that cover the entirety of the school's participation in the FSA programs. We believe that an all-inclusive policies and procedures manual is critical to establishing internal controls and ensuring effective and efficient operation of a schools FSA programs.

We encourage those individuals responsible for participating in schools' business operations to join with their colleagues in financial aid in creating a comprehensive FSA policies and procedures manual for their schools.

Examples of topics that should be included in a school's FSA policies and procedures

- the organizational structure of the school's business and financial aid offices including how your school determines the number of qualified individuals required to administer the Title IV Programs
- the schools procedures for ensuring its E-APP is kept current
- the checks and balances built into your school's financial management systems that ensure separation of functions and cash control
- identification of the required coordinating official
- procedures for ensuring that the coordinating official is kept informed of all information received by the school that might affect a student's eligibility for federal student aid
- an annual calendar of aid-related activities
- a list of all financial charges
- descriptions of all financial assistance available at the school, the eligibility criteria, and the procedures for applying for aid
- procedures for processing aid applications
- policy and procedures for resolving conflicting information
- general financial counseling available to students
- general eligibility criteria for FSA program funds
- procedures for ensuring that all recipients meet FSA eligibility requirements
- eligibility criteria for school-based assistance
- the school's packaging philosophy and the procedures for awarding FSEOG, Perkins Loans, and FWS jobs
- TEACH Grants – identifying eligible students, counseling, and awarding
- payment periods and loan periods
- procedures for ensuring that all students for whom funds are being requested have begun all the classes on which their aid is based
- procedures for determining that students who received a Direct Loan disbursement were enrolled in at least six credits at the time of the disbursement
- procedures for ensuring that individual Tile IV program requirements (for the award year or payment period) have been met before FSA funds are posted to a student's account
- procedures for requesting and drawing down federal funds funds
- disbursement procedures
- crediting student accounts
- variables considered and procedures applicable to using professional judgement
- variables considered and procedures applicable to changing dependency status (overrides)
- how, where, and for how long all documents relating to federal student aid are maintained
- the fiscal recordkeeping process
- the fiscal reporting process
- procedures for determining that students who failed to earn a passing grade in any of their courses remained in attendance through the 60 percent point in the period for which the student received FSA funds

- the Return of Title IV funds procedures
- procedures for handling overpayments
- Federal Work-Study Program – Assigning FWS Jobs, job descriptions, rates of pay and the procedures for determining the rate of pay when a position has multiple rates, procedures for reporting FWS hours worked for on-and off-campus positions, payroll records and reporting procedures
- Job Location and Development (JLD) procedures and records, Work Colleges Program procedures and records
- Direct Loan – packaging, confirmation, Certifying, MPN, counseling, disbursing
- information on whether the school provides any of the required matches to federal funds for any of the Campus-Based programs from noncash sources and how that might affect a student's FWS earnings
- monthly reconciliation procedures for all FSA programs
- Federal Perkins Loan Program Master Promissory Note (MPN), disclosure, counseling, records, forbearance, deferment, due diligence
- rules for recalculating Pell Grant and other FSA assistance when students add or drop classes
- carried forward/carried back procedures for FSEOG and FWS
- transferring funds between the Campus-Based programs
- NSLDS procedures and responsibilities
- G5 procedures and responsibilities
- FISAP procedures and responsibilities
- student and parent authorizations
- procedures for handling credit balances
- procedures for making post-withdrawal disbursements
- procedures to ensure security of returned checks
- procedures to ensure that FSA funds do not escheat, and other internal control procedures
- verification procedures and deadlines
- Satisfactory Academic Progress policies, including appeal procedures
- procedures for negotiating and recording those parts of contracts and consortia agreements
- procedures for ensuring compliance with regulations on correspondence and telecommunications limitations
- procedures for ensuring that required updates to the E-App are filed in a timely manner
- the required voter registration program
- the required anti-drug program
- directions on how to obtain the reports a school is required to make available under The Campus Security/ Clery Act, The Student-Right-to-Know Act, and the Equity in Athletics Disclosure Act
- copies of all forms, applications, standard correspondence, and other materials routinely used by the business office and financial aid office
- method of insuring that all employees of the financial aid office receive up-to-date training on the administration of the FSA programs
- procedures for evaluating and improving the operations of the business and financial aid offices
- procedures for requesting and criteria for awarding Leaves of Absence

EVALUATING AND IMPROVING YOUR SCHOOL'S FINANCIAL MANAGEMENT SYSTEMS

Improving the way schools manage the Federal Student Aid programs is a priority for the Department, and should be one for school business and financial aid officers. Strengthening your school's administration of FSA aid begins with an annual analysis of existing procedures, practices, and polices, is followed by an honest evaluation of where you have been successful and where improvements are needed, and concludes with planning for the upcoming year. An annual program of analysis, evaluation, and planning can help your school ensure its compliance with statutory and regulatory requirements and promote constant improvement in your procedures, practices, and polices.

The primary methods for evaluating a school's management of the FSA programs are self-evaluation, and peer evaluation.

Self-evaluation

Compliance is a requirement, but quality is a choice. If your school is serious about this choice, the Department provides a way for you to conduct a practical self-evaluation of your FSA programs. The Department has developed an *FSA Assessment Tool* that is intended to help schools examine and improve their management of the FSA programs.

The FSA Assessment Tool can be used to evaluate and analyze a school's existing policies, procedures, and practices to determine where improvements are needed. The Department encourages schools to use the assessment activities on an ongoing basis to ensure compliance and establish the foundation for continuous improvement.

The FSA Assessment Tool consists of a comprehensive set of activities and questions designed to help your school assess its current FSA operations. Each assessment contains the major functional requirements, as well as suggested assessment steps.

The assessments can help you

- anticipate and address problems;
- spot-check the systems you are using to manage information;
- prepare for an audit or other review;
- maximize the efficiency of your staff in handling their duties; and
- continuously revise your approaches to management of the FSA programs according to your campus needs.

FSA Assessment topics currently available include

1. Student Eligibility
2. Satisfactory Academic Progress
3. FSA Verification,
4. Institutional Eligibility
    - Recertification
    - Change In Ownership
    - Administrative Capabilities
5. Default Prevention Management
6. Consumer Information
7. Fiscal Management
    - Disbursing Aid
    - Reporting and Reconciling
8. Return of FSA Funds
9. Perkins Due Diligence
10. Perkins Repayment
11. Perkins Cancellation
12. Perkins Awarding and Disbursement
13. Perkins Forbearance and Deferment
14. Federal Work-Study
15. FSEOG
16. Automation.

To enhance their effectiveness, the Assessment Tools include activities to test compliance and procedures. The Assessment Tools also are linked to the latest regulations, Dear Colleague Letters, Federal Registers, and other related documents. Downloadable Microsoft Word documents include the hyperlinks as well. Those who download any of the FSA Assessments can access all hyperlinks through their Internet service provider (**ISP**).

Since financial aid is an institutional responsibility, some assessments may need to involve several offices on campus (financial aid, business office, admissions) to complete the assessment.

A second tool for self improvement is *The Self-Evaluation Guide*, published by the National Association of Student Financial Aid Administrators (NASFAA). It provides a step-by-step outline for reviewing financial aid and fiscal policies, procedures, and practices. It can help your school develop a comprehensive systems for evaluating its FSA participation

Peer evaluation

Peer evaluation is another technique your school can employ to obtain an independent, objective review of an your administration of FSA programs. A peer evaluator can be a financial aid administrator or fiscal officer from another school or a financial aid consultant.

During a peer evaluation, a school obtains an objective assessment of its operation from someone at a similar school. The person performing the evaluation also benefits by getting a firsthand look at how another school manages financial aid programs. Comparing notes and exchanging ideas are methods by which colleagues in financial aid offices and business offices can share their expertise for improved FSA administration.